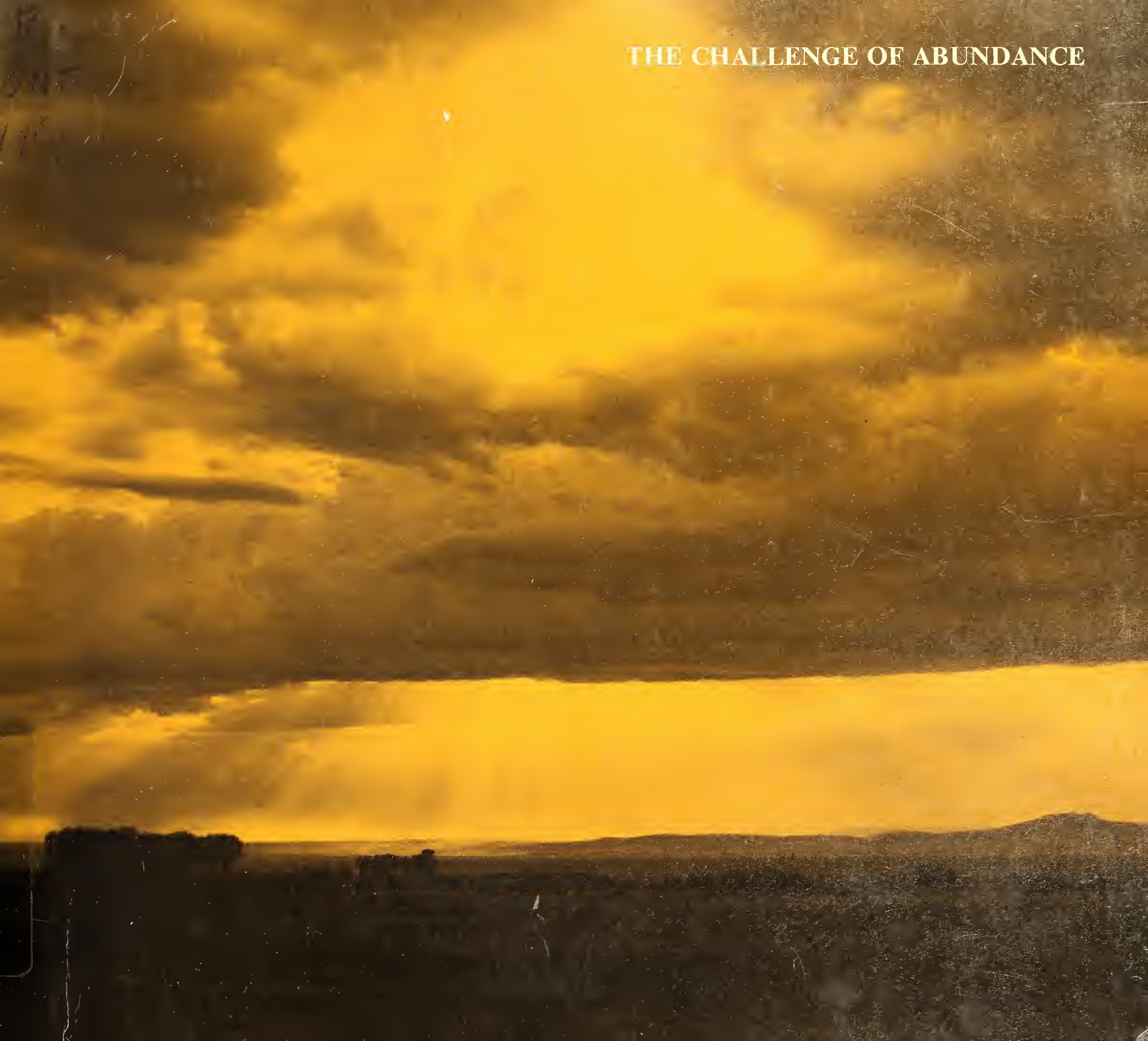
THE CHALLENGE OF ABUNDANCE



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THE CHALLENGE OF ABUNDANCE

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THE REPORT OF THE SPECIAL COMMITTEE ON FARM INCOME IN ONTARIO

January 1969

ONTARIO
SPECIAL COMMITTEE ON FARM INCOME

January 6, 1969

The Honourable Wm. A. Stewart,
Minister of Agriculture & Food,
Ontario Department of Agriculture & Food,
Parliament Buildings,
Toronto 5

Dear Sir:

I have the honour on behalf of the Committee to submit herewith their findings and recommendations on the problem of farm income in Ontario.

Respectfully yours

Everett Biggs.

Everett Biggs,
Chairman

Everett Biggs
Chairman
Toronto

Everett Biggs.

Malcolm L. Davidson
Brucefield

Malcolm L. Davidson.

Gordon Hill
Varna

Gordon Hill.

John Phillips
Toronto

John Phillips.

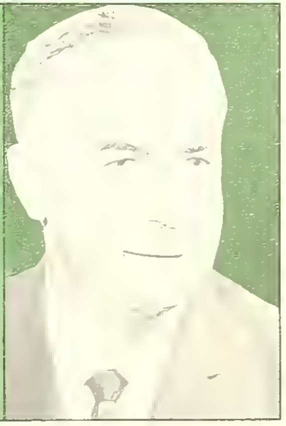
Thomas Robson
Leamington

Tom Robson.

Mrs. K.E. MacIntosh
Kitchener

Edith L. MacIntosh

Dr. M.A. MacGregor
Director of Research



J.E. O'Meara
Executive Secretary

The Honourable Wm. A. Stewart, Minister of Agriculture and Food for the province of Ontario, convened an Ontario Conference on Agriculture in Vineland, Ontario, in October 1966.

In announcing the decision of the government to call the conference, Mr. Stewart indicated that the purpose of the conference would be to examine the current situation in the agriculture and food industry and also to explore the demands and trends likely to prevail in the foreseeable future. It was also recognized that technological and scientific changes were constantly evolving with the result that all those associated with the production of food are rightly concerned with the growing complexities of the industry and what the future holds for them.

In order to give the broadest possible coverage to matters of concern in the industry, invitations to participate were extended to every agricultural and allied group in Ontario. A total of 88 groups accepted the invitations and were in attendance. In addition there was representation from the Government of Canada, the Governments of Ontario, Quebec and Manitoba. Members of the Legislative Assembly of Ontario representing the Standing Committees on Agriculture and Conservation, the Liberal Party in Ontario and the New Democratic Party, were also in attendance.

At the close of the Conference at Vineland, the following resolution was passed:

"*That a Committee be set up to study the idea proposed by the O.F.A. Marketing Committee and also other techniques for improving and maintaining farm income. The Committee would report to all organizations represented here with copies of the report distributed to all Conference delegates.*

Therefore, be it resolved that the delegates to this Conference recommend to the Minister of Agriculture and Food that:

(1) *a study be undertaken of various ways of achieving income incentive payments or other techniques, to farmers*

(2) *he name a Committee to conduct this study, and*

(3) *the Committee be instructed to recommend a program by which this can be accomplished.*"

Acting on the strength of this resolution, Hon. Mr. Stewart appointed the members of the Special Committee on Farm Income at the close of the Conference.

The following Order-in-Council established the Committee:

The Committee of Council have had under consideration the report of the Honourable the Minister of Agriculture and Food, dated December 20th, 1966, wherein he states that,

WHEREAS it is recognized that the agricultural industry is an essential part of the economy of Ontario;

AND WHEREAS it is the desire of the Government of Ontario to maintain sound and progressive development of Ontario's agricultural industry;

AND WHEREAS it is deemed in the best interests of agriculture in Ontario that a Special Committee on Farm Income be formed to study techniques designed to attain an improved level of farm income;

The Honourable the Minister of Agriculture and Food therefore recommends that a committee be formed consisting of the following members appointed for a term of one year, effective from the 28th day of October, 1966:

Everett M. Biggs	Deputy Minister of Agriculture and Food	Chairman
Thomas Robson	R.R. 1, Leamington	Member
Gordon Hill	Varna	Member
Mrs. K.E. MacIntosh	Kitchener	Member
Malcolm Davidson	Brucefield	Member
John Phillips	Toronto	Member

to inquire generally into all matters pertaining to farm income in Ontario.

The Honourable the Minister of Agriculture and Food further recommends that the Committee be empowered to add such additional members thereto as the Committee deems necessary from time to time.

And the Honourable the Minister of Agriculture and Food further recommends that the Committee report to the Honourable the Minister of Agriculture and Food and make such recommendations as in its opinion will effectively promote an improved level of farm income in Ontario.

And the Honourable the Minister of Agriculture and Food further recommends that Mr. Morris Huff of the Department of Agriculture and Food act as secretary of the Committee.

The Committee of Council concur in the recommendations of the Honourable the Minister of Agriculture and Food and advise that the same be acted on."

The Committee began its work by reviewing the deliberations of the Vineland Conference and called for briefs and submissions from interested individuals and organizations.

The Committee appointed Dr. M.A. MacGregor of the University of Guelph, as Director of Research. It was soon apparent that a major research project was required to determine the extent of unsatisfactory income of Ontario farms. It was proposed that a research staff be acquired by the Committee or alternatively that a firm of consulting economists be engaged. The latter proposal was accepted and the firm of Hedlin, Menzies & Associates Limited was engaged under contract.

Under authority of the Order-in-Council the Committee appointed as a member Mr. George McLaughlin of Beaverton, Ontario, on October 31, 1966. Pressure of Mr. McLaughlin's other duties as Chairman of the Ontario Milk Marketing Board led to his withdrawal from active participation in Committee deliberations in April, 1968.

Wishing to have close liaison with other provinces, the Committee asked for representation from the province of Quebec and the province of Manitoba.

Mr. R.A. Wallace, then Deputy Minister of Agriculture and Conservation, acted in liaison capacity for the province of Manitoba and Dr. Ernest Mercier, Agricultural Adviser, Executive Council, acted for the province of Quebec.

The Committee made its first report to another Conference on Agriculture, at Kemptville, Ontario, in July, 1967. The structure and representation at this Conference was similar to the Vineland meeting of October, 1966.

The main result of the Kemptville Conference was a strong recommendation that the Committee's work be carried on and extended until December, 1968. The following Resolution was passed:—

"*BE IT RESOLVED*
that the Special Committee on Farm Income move immediately into the second phase of research on solutions to the farm income problem and
BE IT FURTHER RESOLVED
that the Committee give immediate attention to interim solutions that will tie in with long-term solutions and
BE IT FURTHER RESOLVED
that farm organizations and delegations to this Conference be informed periodically by means of progress reports."

The Committee, in response to this Resolution, continued to engage the firm of Hedlin, Menzies & Associates Limited to conduct the research required.

In the meantime, the original Secretary of the Committee, Mr. Morris Huff, resigned his position and Mr. J.E. O'Meara was appointed Executive Secretary.

The Committee called for supplementary submissions in late 1967 from farm organizations and other groups. Some proposals were received and considered by the Committee.

The Committee became concerned about two major items which they felt would have a bearing on the consideration of any major policy guidelines that might be recommended. One concerned the inadequacy of agricultural statistics and data. Several meetings were devoted to consideration of the establishment of an Agricultural Data Bank for Ontario with a proper statistical basis and which could be relied upon for accuracy and adequacy.

The other concerned the obvious disunity existing in the farm movement in Ontario. The Committee proposed that the various farm groups in Ontario study a proposal for a single general farm organization. The Committee sponsored separate meetings of the senior officials of the Ontario Federation of Agriculture, the Ontario Farmers' Union and the commodity groups.

This resulted in a meeting on January 5th, 1968 of representatives of all groups involved and the appointment of a Committee from the groups to study the proposal for one General Farm Organization for Ontario.

This Committee reported on the 21st of May, 1968 and the whole matter of a single general farm organization was again discussed in detail and the matter was resubmitted for study by a smaller Committee which reported in November, 1968.

In April, 1968 the Committee began visits to all regions of Ontario, to discuss informally, area problems with staff members of the Ontario Department of Agriculture and Food and to visit individual farmers and farm leaders. A list of the places visited by the Committee is appended to this report.

The background research by the consultants was concluded in midsummer 1968 and from then until November, the Committee was in regular session, reviewing the research findings and proposals, reaching conclusions, and preparing the final draft of this report.

THE CHALLENGE OF ABUNDANCE

Agriculture is a unique industry.

It is the largest in Canada, contributes more to export earnings, and has increased its efficiency at a faster rate than any other sector in the nation's economy.

Yet the independent farmer businessman has lower returns to his investment, management and labour than most other businessmen. This intolerable situation to a significant degree can be attributed to a lack of industry planning, especially in the fields of production and marketing, and failure of the farmers' organizations.

Since World War II, confused by wartime policies and misled by the immediate post-war prosperity of agriculture the farmer has placed his reliance on a series of temporary expedients as a substitute for long-term planning and comprehensive programmes. The result is an income crisis of major proportions. The blame cannot be levelled at any one organization or institution. It has been the result of the attitudes and philosophy of the majority of people associated with the industry. Unless immediate steps are taken to tackle this crucial issue, the entire agricultural industry faces a violent upheaval that will bring little or no benefit to society, but would disrupt and destroy the social and economic structure of rural Ontario. The warning signals have been flying for some time.

The new problem which is further aggravating the current economic situation in agriculture is the challenge of abundance. This abundance is coming through improved production technology both within and outside of Canada. And abundance will challenge the farmer to change.

The challenge of change involves willingness to adapt ourselves, our attitudes and our institutions to new technology and conditions. All of which are coming at an accelerating rate. These changes should be guided. But first we must answer these questions:

What sort of changes do we want?

Who should guide or institute changes?

Who should benefit and by how much?

What costs are involved in change and who should pay for them?

And finally, how should these changes be instituted?

If farmers act together to take part in the decision process, they will undoubtedly run into resistance from those who have for some time directed change and who see their position being eroded or threatened.

We live in a selfish society. Some hope that it involves enlightened self-interest. But whether enlightened or not, it can only succeed if all segments have adequate power so that changes are balanced in terms of benefits and costs. This report considers some needed changes and a better balance in the face of our abundance.

The Special Committee on Farm Income cannot overstress the need for immediate action to cure agriculture's ills. Farmers, their organizations, and governments must address themselves to this objective.

There has been a long period of dialogue; now is the time for action.

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PART I: AGRICULTURE AND FARMERS

Chapter 1: Farmers and their environment

Our Committee has spent two years studying the farm income situation in Ontario. It has become clear to us that no one problem can be called 'the farm income problem'.

An endless list can be made of the factors affecting the income position of farmers and their families. These factors are the subject of this report. The Committee has undertaken not only to list them, but to analyze them in some detail and to propose solutions. We have tried to give purpose and direction to agricultural policy.

Although for the past two years we have been concerned with the difficulties confronting farmers and farm families, we realize that the agricultural industry does not function in isolation from the Ontario economy. The difficulties in the agricultural industry extend to society as a whole.

A large group of people earn their entire living from farming. Others have found that a farm living is not sufficient, and have turned to off-farm work to supplement their income. A third group has recently left the farm. Some are earning extremely low incomes and are living in cities and rural communities under undesirable conditions.

The farm situation is constantly changing. In Ontario during the year 1969, 5,000 farm people will leave farms. A number who were farmers yesterday are not farmers today. A number who are farmers today will not be farmers tomorrow. It would make little sense to pick out one particular year and to say that people farming in that year are to be considered the subject of our study.

We have not concerned ourselves extensively with defining the 'farmer' and the 'farm family'. Our basic concern is with people and their problems, and problems are not solved by simply ruling out those people who do not fit into a definition. Our recommendations are concerned with problems that exist both inside and outside the farm gate. They are not intended to cease to apply when a farmer leaves the farm gate.

Our attention has been directed to the rural community as well as to farms. Conditions in rural communities are not separable from conditions on farms. Farm people live and shop in the rural community. They seek work and their children go to school in rural communities. When farmers retire, they often live in rural towns and villages. The way farmers live is based on the rural community.

There is no single farm income problem

There are many difficulties in farming today, all of them affecting the income position of farmers. Some circumstances which one farmer would call a problem would not concern another. To a certain extent, the way a farmer sees the income problem depends upon the particular situation confronting him. It also depends on the judgments he makes concerning how the economic and social system should work. People's ideas regarding what would constitute fair and equitable conditions differ. Nevertheless, these differences cannot obscure the fact that most farmers are not receiving fair income treatment.

Many farmers cannot earn an income sufficient to provide them with the basic necessities of life. Solutions to their difficulties must give first priority to improving incomes.

Other farmers have difficulties less closely connected with income. They find that people with equivalent management skills and with the same amount of capital and labour committed to enterprise are able to earn much higher incomes in other industries.

These farmers are concerned about the lack of equality of treatment between industries.

Most farmers experience great variations in income from one year to the next. Income fluctuations place them in a highly uncertain position regarding future security and ability to meet financial obligations.

We recognize that a number of farmers do not have serious income difficulties. Our concern is that this group is so small. In our economy a large proportion of the people in most industries is in a satisfactory income position.

This is not true in the agricultural industry. Our Committee has undertaken an extensive investigation to discover the reasons for this.

Some income problems arise out of difficulties on the individual farm, and are related directly to the production of farm products. Others are related to the way that production decisions are made, or the way that marketing is done in the industry as a whole. A number of problems arise from the conditions under which farmers obtain their inputs. Problems arise out of government policies and programmes, out of the change taking place in different industries and out of the distribution of the costs and benefits of such changes.

What is income?

Income can be looked at in two ways. It can be viewed as the total revenue which a person or family accumulates in a year. People obtain this revenue in a number of ways. The most important arises out of one's role in the production process. People get paid for their labour. They get a return on the capital and land they own. There are other contributions to a person's income not so closely related to his role in the production process. People receive gifts and inheritances. Many receive payments of one sort or another from the government.

The other way of looking at income is in terms of the goods and services which one purchases in a year. Goods include such things as food, clothing, houses, cars and television sets. Services include such things as bus rides, movies, labour put into machinery repairs, and medical treatment. A person can buy a certain quantity of goods and services with the revenue he receives. By adding up the value of these goods and services, over a year, we get a measure which corresponds to the total income.

Both ways of looking at income give the same measure. However, the first emphasizes the source of one's income; the other emphasizes the uses to be made of it.

Not everything people use to meet their needs is bought from someone else with revenue they have received. Most people obtain some of the goods and services they need through producing them. For instance, a carpenter needs less income than other people to buy a house. He can build it himself. Similarly, a farmer is able to produce some of the food products he needs. If the measure of income is to be as exact as possible, some value should be placed on these home-produced items when calculating income.

Sources of income

Goods can only be produced through the use of inputs or resources. By resources we mean things like labour, fertilizer, machinery, equipment, buildings and land. Each resource contributes to the product.

When a product is sold, the revenue realized from the sale is the result of the contribution of each resource. Each resource has earned a return. Labour is paid a return out of the total income received by the producer. The money tied up in machinery, equipment, buildings and land earns a return.

The returns earned by resources go to the person who owns them. Everyone in society possesses some resources. At the very minimum, each person possesses his own labour. It may sound strange to refer to labour as an economic resource which one owns. Nevertheless, that is what it is. No one in our society is allowed to have ownership rights over anyone else's labour. Within limits, a man is free to work where and how he sees fit, and the earnings from his work must be paid to him.

Many people own inputs in addition to their own labour. People own differing amounts of machinery, equipment, buildings and land. Many people have other resources as well. For many families, gifts, inheritances, government payments and other transfers of spending power from one person or organization to another are important components of income.

Uses of income

Income is only important because of the uses to which people can put it. Persons and families use income to buy things, either now or in the future. There are three different ways people may use their income.

Income can be used to buy goods for basic living. These include food, clothing, medical treatment, fuel for heating, housing, recreation, and other necessities of life. We have called the income needed to buy these necessities the basic income requirement. Items judged to be necessities of life depend on the stage of development of the economy. As a society becomes richer, people expect that more items will be included in the basic necessities category. If they are not, differences in living standards become so great as to be socially undesirable.

Second, income can be used to buy items which are generally considered to make life more comfortable, but which could not be called necessities. These might include television sets, electric dishwashers, trips abroad, and many others. We have chosen to call income used for these purposes luxury income.

Income can also be used to purchase goods which do not meet any present living requirements. Some income is temporarily set aside when it is received. Income set aside is not available for personal or family spending until a later date. Income used in this way is saved income.

Saved income by farmers includes income invested in buildings, machinery, equipment, livestock, and land. Farmers' income must be devoted to these kinds of purchases if farmers are to earn any income at all.

Not all people use their own income to buy goods, but borrow income saved by other people. These loans are repaid as the buildings and machinery are used up in production and when the land is sold. This is not generally true for farmers, however. Our studies have indicated that over three-quarters of the capital in Ontario farms has been invested from the farmers' own income or from previous generations. Even with a low income, the farmer is forced to save out of his own income if he is to obtain the capital goods he requires. We have used the term 'forced saving' to indicate income which is saved because the person has no choice.

Forced saving of this nature is not desirable if it involves giving up necessities. People should be able to determine how much income they are going to save by comparing their current and their future living requirements. If income is needed to meet current expenses, then savings should be as small as possible. There is very little sense in living poor and dying rich. Much of the forced saving required in farming has this effect.

How much income should a person receive?

To answer this question, we must look to the value judgments and attitudes of people in society. These attitudes are largely determined by how people believe our social and economic system should work.

Many people in Canada today believe that the amount of income a person receives should be based on his needs. They believe that an economic system cannot be justified unless it can provide people with incomes sufficient to meet their basic needs.

Others hold that the amount of income a person receives should be based on the returns which his labour and other resources can earn. People with this view differ somewhat with regard to what is to be done if a person does not have an opportunity to employ his resources fully, or if he does not have an opportunity to employ them in their best use. All agree that these problems should be dealt with in some way. The differences arise over what should be done while steps are being taken to achieve full employment of all resources.

Some say that the people who possess these resources must get along as well as they can until the appropriate changes take place. Others say that society as a whole has some responsibility for supplementing the incomes of resource owners who cannot make a living from their resources.

The answers to these questions depend on how one sees the moral responsibility of society to its individual members. They also depend on how different actions affect the operation of our social and economic system. There is a growing recognition that when resources are unemployed or underemployed society sacrifices potential goods and services. If such resources were put to better use, they could produce a great deal more to be distributed to all of society. If governments bear some of the costs of undertaking the structural changes needed, the benefits are likely to be much greater than the costs. For this reason, there is growing recognition of the need for rapid expansion of programmes aimed at making structural changes in the economy.

Return to resources approach

One way of judging how much income a person should receive is by setting some minimum return which each of the resources he possesses should be expected to earn. The difficulty arises in determining what these minimums should be. How can a minimum be set on the level of earnings labour should get in an industry? How can a minimum be set on the return to capital?

Our Committee has decided that minimums should be based on the returns that labour and capital earn in other industries with similar skill requirements and similar risk. If a large number of farmers do not earn a labour and capital return at least equal to the average in other industries, farmers are not receiving equitable treatment. It appears to us that the skills required and risks encountered in farming can be compared with those of other industries in Ontario.

We recognize that in any industry there will always be enterprises earning less than adequate returns to labour and capital. This is true because practically all industries contain a certain number of inefficient operators. However, if a major proportion of the enterprises in an industry earn less than adequate returns to resources, this indicates deeper structural difficulty in the industry itself. We believe that agriculture is such an industry.

Some people argue that farmers are not as skilled as people in other industries, and that they cannot expect to receive equal labour returns. This idea is based on an unfortunate lack of understanding. It may be true that a middle-aged or older farmer has difficulty shifting to a new job. This is true of anyone in any occupation. A 50-year-old dentist would have trouble shifting to a new occupation, just as a 50-year-old farmer does.

This fact should not be used as the basis for suggesting that farmers should get a lower labour return than others. The important time to compare skills and ability is at the time a person chooses his occupation. The skills and capabilities required of a young farmer today are far greater than for many other occupations.

Low resource returns are supposed to act as a signal for resources to leave an industry in search of a better use. It becomes obvious that this does not work well in the case of agriculture. After becoming established in an industry like agriculture, resources such as labour and capital can only be transferred to another industry at great cost to the resource owners. Often they cannot afford the cost involved. In addition. many people wish to remain on the farm because of its advantages to them as a way of life, even if they can achieve only low resource returns.

But present low returns do not offer a justification for the continued existence of such low returns. Both farmers and society as a whole would benefit if resource returns in agriculture were comparable to other industries.

Based on the 'return to resources' approach of determining minimum incomes, we have found that farmers are not earning adequate incomes. The average farmer in Ontario receives less than $1.00 per hour for his labour. Rates of return on farm capital at current values are commonly below 3%, before income tax. By comparison, the average hourly wage in Ontario manufacturing industries was $2.48 in 1967. Rates of return on capital for non-farm industries calculated on the same basis average about 15%.

This situation is unacceptable. Both farmers and society can benefit from changes which would eliminate these discrepancies.

Income deficiency approach

The other method of determining the minimum income a person should receive is based on finding some necessary level of income needed to obtain basic clothing, food, medical treatment, and shelter. A minimum 'basic income' level depends on the area in which the person lives, the size of his family, and other factors which affect his basic income needs.

A recent study for the Dominion Bureau of Statistics indicates that in 1961, the average single Canadian required an income of $1,500 for the basic necessities of life. A family of two required $2,500 and $500 was required for each additional member of the family.

We have applied these figures to the needs of Ontario farm families in 1969. Average Ontario farm families have from two to three children. To meet their needs, average farm incomes should have ranged from $3.500 to $4,000 in 1961. Prices of non-luxury living requirements have increased by approximately 15% since 1961. This increases the range of required average farm income to between $4,000 and $4,600.

It is sometimes suggested that the farm income requirement should be lowered because food and housing can be purchased at lower prices in rural areas. Our observations indicate this is not the case. For food and housing of comparable quality, the cost in rural communities is equal to or greater than the average cost for the province.

We have investigated the current position of Ontario farmers relative to these findings. Our conclusion is that slightly more than one-half of the farm families in Ontario receive incomes adequate to meet their basic needs. Only one-third have any significant portion of their income available to meet luxury needs. If forced savings and income tax payments are taken out of the income of this top one-third, a further one-half of this group is reduced to a position where they have little luxury income.

Our Committee feels this is an unacceptable situation which should not be permitted to continue. Farmers have made a major contribution to the development and growth of this province. They have been forced to accept a cheap food philosophy as an important factor in the growth of the economy. Today the people of Canada have one of the highest standards of living in the world. Farmers have not been getting a fair share of that growth. Most other groups accept their share as a right.

Bringing the two approaches together

We have suggested two ways of determining the minimum incomes to which farmers are entitled. In our opinion, the two approaches are not in conflict.

From a social and moral point of view, the income deficiency approach would seem to be the more desirable. It is not acceptable that in an economically developed society there should be people who do not have sufficient income to meet their basic needs. Nevertheless, it is possible that if all people had an opportunity to employ their resources fully and in the best way possible, they could earn sufficient incomes. This would require that all people have sufficient education and training to earn adequate labour returns in some employment. It would require programmes to help low income people move to new jobs. It would require that all industries be organized to provide adequate returns to resources employed.

Programmes designed to ensure adequate resource returns to all people presently employed in agriculture will require major changes in our economy and in our political processes. These programmes will no doubt take time. It is necessary that interim programmes be undertaken to ensure that adequate incomes are provided. One of these interim programmes might include income maintenance through government support. Such programmes should support incomes in a way that will not inter-

fere with the changes needed in the industry.

Income maintenance programmes, if combined with programmes designed to change the organization of the agricultural industry, are very different from the current welfare programmes used in some areas to help disadvantaged families. Low income families in agriculture largely require new opportunities to utilize their productive ability. They are not people who are unable or unwilling to work. Rather they are people trapped in an industry which cannot provide them with adequate incomes regardless of how hard they work. This results from the overall conditions of production in the industry and from the pattern of demand for farm products. It is not the result of the deficiencies of a large number of individuals working in the industry.

In recommending policy to achieve minimum incomes, our Committee has not concentrated on any single approach. Some of our recommended policies have been guided by the income deficiency approach. Others have been guided by the resource returns approach. In the final analysis, we have not found any basic conflict between the two.

Social implications of low income

People with low incomes are usually denied many of the non-material things of life offered to other people in society. The income position of the people in a community affects social and cultural conditions of that community.

Our investigations have shown that low income farm communities often have less qualified teachers and inferior educational facilities compared to other communities in the province. Children often do not receive the encouragement or guidance necessary if they are to develop to their full potential. Low income in these communities is self-perpetuating. Because the children come from low income families, they do not have the same chance as others to appreciate and take advantage of better opportunities available in the province.

This inequity in the overall educational process is costly to Ontario. The Economic Council of Canada has indicated that one of the greatest sources of economic growth lies in adequate education for young people. The people of Ontario are constantly reminded of the importance of appropriate tax and tariff policies if economic growth is to be maintained. Proper education for all young people can make a much greater contribution to growth than most other policies.

Our Committee is fully aware of the continued improvements being made in educational programmes in Ontario. We wish to see these programmes continued at a rapid pace, with an emphasis on giving children in all communities the benefits of a progressive educational system.

Low income communities do not have sufficient communication and association with the rest of the province and the world. As a result, people in such communities are less able to cope with new developments in economic and political affairs. They are less able to cope with the possibility of moving to a new community and better opportunities. Low income people are effectively shut out by other communities. The result is that they can only feel secure in their own community among other people living under similar conditions.

Some would suggest that many of these conditions are desirable, and that because of these conditions low income people are better off than many with higher incomes.

Our Committee cannot accept this view. Farmers are too familiar with the difficulties low incomes impose on families. We do accept that many desirable features are to be found in the pattern of life in rural communities. We do not believe this pattern of life is made any more desirable by a lack of adequate income. Adequate incomes must be given high priority if rural communities are to be given equal social and cultural opportunities.

Background to the income problem

Farmers, like other people, do not exist independently of the total society in which they live. The way that other businesses behave has a great effect on the position of the farmer.

Nowhere is this more important than with respect to his income position. He is constantly nudged and pushed by all sorts of people, acting both individually and collectively. The farmer has been in a very weak position relative to these people. He has little power or ability to resist the actions and decisions taken by others.

The result of this weak position is obvious. Each time a farmer takes some action to improve his own income position, the income gain is temporary and fleeting. Slowly but surely the income gain is eaten away to the benefit of other people in society. But if he decides to give up in frustration, and tries to maintain his income position, that too proves to be impossible.

Consumers, businesses, and governments all have a great deal of power compared to the farmer. The benefits of increased productivity are largely passed on to consumers in lower prices. Higher farm incomes are constantly eroded by higher input costs and higher taxes. The structure of agriculture is such that the farmer has little opportunity to pass these higher costs on to someone else.

Opportunities exist for changing agriculture so this situation does not continue. Most other industries have faced similar difficulties, and have resolved them satisfactorily. The same opportunity exists for agriculture. To take advantage of these opportunities, farmers must ensure that positive steps are taken.

These steps should be to the mutual advantage of farm and non-farm people alike. Agriculture is one industry out of many in the economy. The strength and prosperity of each industry depends very much on the strength and prosperity of others. Agriculture at present is one weak link in a chain. The whole economy cannot help but be strengthened if agriculture is strengthened.

The behaviour of farmers as a group has important implications for the income position of an individual farmer. Farmers tend to make their individual production decisions without any real consideration of the effect this has on all farmers as a group. If farm income problems are to be attacked intelligently and successfully, farmers should realize that they must put their own house in order. This can be done. Farmers in Ontario have made some progress in organizing their industry. Many of our recommendations will deal with the challenge of organizing still more effectively.

What are the institutions and factors involved?

Supply and processing industries

Prices of products and costs of inputs have an important role in determining farm incomes. Most of the inputs – machinery, buildings, chemicals, fuel and feed – must be bought from other businesses. Likewise most of the products that the farmer sells go directly or indirectly to firms operated by non-farmers.

The individual farmer has little ability to bargain from a position of power or to exercise any control over these firms and businesses. The farm supply and food purchasing businesses are large and highly organized. They are able to resist the pressures and activities of farmers.

Food processors and retailers are anxious to keep farm product prices low. Their main concern is that they do not pay more than their competitors for the raw product. The food processing and retailing business is extremely competitive. A number of services, including assembly, processing, packaging and transporting, go into farm products before they reach the consumer. Costs of these services are the basis on which processors and retailers should earn their return. The greater the sales, the greater are the earnings of both processors and retailers. To maintain their sales, processors and retailers compete by keeping their costs as low as possible. An obvious means of reducing costs is to reduce the price for raw food products from the farm. Because of their strong bargaining position, they are able to hold prices to farmers at a low level.

Most industries are facing increasing input costs and are able to pass these costs on to farmers. The farm machinery industry is a good example. As steel and labour costs rise in the economy, the farm machinery companies increase prices. The farmer is unable to resist these increasing prices, since he is committed to his vocation. He is unable to pass them on to the purchasers of his products. As a result, he bears the full burden of rising costs in the economy generally, as they focus on his inputs.

The realities of today demand that buying and selling be done under conditions of equal size and strength. Any individual or group without such size and strength is bound to suffer.

We have found that the big businesses in the input supply, marketing and processing industries are not generally raking off exorbitant profits at the expense of the farmer. The position of the farmer is eroded in a much more subtle way.

These businesses are concerned about maintaining adequate levels of returns to their resources. They also face upward pressures in operating costs, putting a squeeze on their returns. If they are to maintain returns at adequate levels, they must either resist these pressures or pass them on to someone else. It is extremely difficult for them to resist since they are dealing with other highly organized industries and labour unions. The farmer provides the weak link in the chain. As a result, he bears the brunt of a whole series of powerful bargaining activities in the economic world in which he operates.

Many inefficiencies exist in the distribution systems of farm supply industries because of the number of firms supplying farmers with inputs. Greater co-operation between these firms would significantly reduce the cost to farmers. Co-operation is now ruled out by combines legislation designed to control the industry's competitive nature.

A re-organization of the distribution system for farm supplies could reduce farm input costs. Lower costs could be realized as long as the firms did not have the opportunity to use monopoly power to take higher profits.

Consumers

The consumer is largely at the mercy of food processors and retailers. Nevertheless, the consumer has a great deal of protection regarding food prices and food quality through the policies of governments. A cheap food philosophy has long been accepted in this country. This philosophy has meant that solutions to farm income problems generally have not been approached through any policy which might cause increased food prices. This is frequently justified by the argument that food makes up a major part of the expenditures of low income families. It is not clear to our Committee why such a justification applies to food and not to other necessities like clothing, heating fuel and housing. These items form just as important a part of the spending of families as does food. If for some special reason food prices should be kept low, the cost of such a policy must be the responsibility of society and not of the producer.

Another reason often suggested for keeping food prices low is to promote exports of food products. To preserve a balance in international payments, it is suggested that food prices must be maintained at a low level. The real benefits of this policy are passed on to consumers. The other argument for low food prices is that food is a part of the cost of producing all industrial products, and that higher cost food could force up wages and production costs throughout the economy, endangering our competitiveness on international markets. Again, it is not easy to justify the fact that this policy is pursued at the expense of the farmer and is not applied to other inputs such as housing or medical care.

Our Committee does not advocate that food prices be maintained at an unnecessarily high level. Nevertheless, we do feel that there is a need for farmers to obtain adequate returns to resources and adequate incomes from the prices received for products. Most other producers in society are able to earn such returns and incomes. The same should be true of the farmer. Food prices should be determined on this basis.

Farmers

Much of the responsibility for low resource returns and low incomes in farming belongs to farmers themselves. Too many farmers have been living in a world of the past. They have refused to recognize the degree to which the rest of society is organized. The two attitudes of 'rugged individualism' and 'farming as a way of life' are unrealistic for the development of farm policy.

Farmers have not taken adequate responsibility for collectively planning their total production. They have not taken responsibility for planning the quantity of resources which should be used in the industry. Many farmers have not been willing to negotiate prices and conditions of sale with buyers to introduce greater certainty into their decision-making processes.

The result of this attitude is obvious. Prices have fluctuated a great deal. Farmers have committed too many resources to agricultural production and have paid too much for them. During many periods, production has expanded faster than demand for farm products at current prices, causing a downward pressure on prices. There has been little recognition that planned management of production could be carried out to maintain production and prices at more acceptable levels.

Firms in practically every other industry in our economy make plans regarding the amount of product they will produce. By such planning, successful industries ensure prices which will give them adequate returns and incomes. The farm machinery industry is a good example. It is organized into a few large producers. In making the decision to produce certain quantities of each kind of machine, manufacturers determine what quantities the market will bear at acceptable price levels. These price levels are then set for the different machines.

The companies take great pains to ensure that they do not produce more than the quantities required, even though this leaves unused capacity in their plants.

Farmers can no longer be sure that political parties and governments will give high priority to their interests and needs. Farm organizations are not organized to ensure that the voice of farmers as a group is heard. There are too many farm organizations. Each organization represents a different interest in the farming community and is willing to engage in open conflict with the others on major policy matters.

This behaviour makes it easy for governments, political parties, and the public to avoid taking action on major issues. They need only point out that farmers do not know what they want. The lack of unity on the part of farmers reduces the potential for the development of significant and comprehensive farm policies.

Credit agencies

Credit difficulties have long imposed a burden on farmers. Governments have tried to resolve these problems. The main emphasis of credit policy to date has been to keep the cost of credit as low as possible.

Capital requirements for farming have been growing each year. Quantities of credit have not increased in relation to these needs. As a result farmers have been forced to devote large quantities of their own income to the purchase of machinery, buildings, and land. This reduces the amount of income farmers have available for current spending.

Repayment schedules on credit from public and private agencies are not geared to the life of the assets. They are generally too short, forcing farmers to sacrifice current income to meet principal payments.

Poor methods have been used to allocate credit to farmers. Government and private agencies have emphasized the security offered for loans rather than the repayment ability of the farm operator.

Current practices of granting credit discriminate against farmers who rent land. The repayment capacity of tenant farmers has not been given enough consideration in granting credit.

Farm credit agencies in Ontario are numerous. There has been little effort to co-ordinate the activities of different agencies. Farmers have not had effective consulting services to help them determine their credit needs or the terms on which they should get credit.

Land owners

Most farmers in Ontario own their land. The burden imposed by land purchases has been increasing as a result of increasing farm size and rapidly rising land prices.

The need for land ownership means that farmers must devote large quantities of their income to savings in land. This income is in effect set aside until the land is sold at retirement or death.

This imposes a strange pattern of spending on farm families. They go through the active part of their lives with low spendable incomes because of payments on land. Income saved in the form of land is not released for spending until the farmer and his wife have little use for it. A good deal of this income is never used by the farmer, but goes to heirs and the government in estate and inheritance taxes.

An alternative to ownership of land is rental. If farmers could rent extra land to expand their enterprise, they could devote less income to forced savings held in land.

Renting in Ontario today is not attractive. There is insufficient land available for renting, and the terms and conditions are highly restrictive. Farmers who rent land are limited in the amount of planning they can do for the future. Leases usually are short term. Farmers have no knowledge of how long they will be permitted to farm their rented land. As a result, it is extremely risky to make large investments in machinery and equipment to farm the rented land.

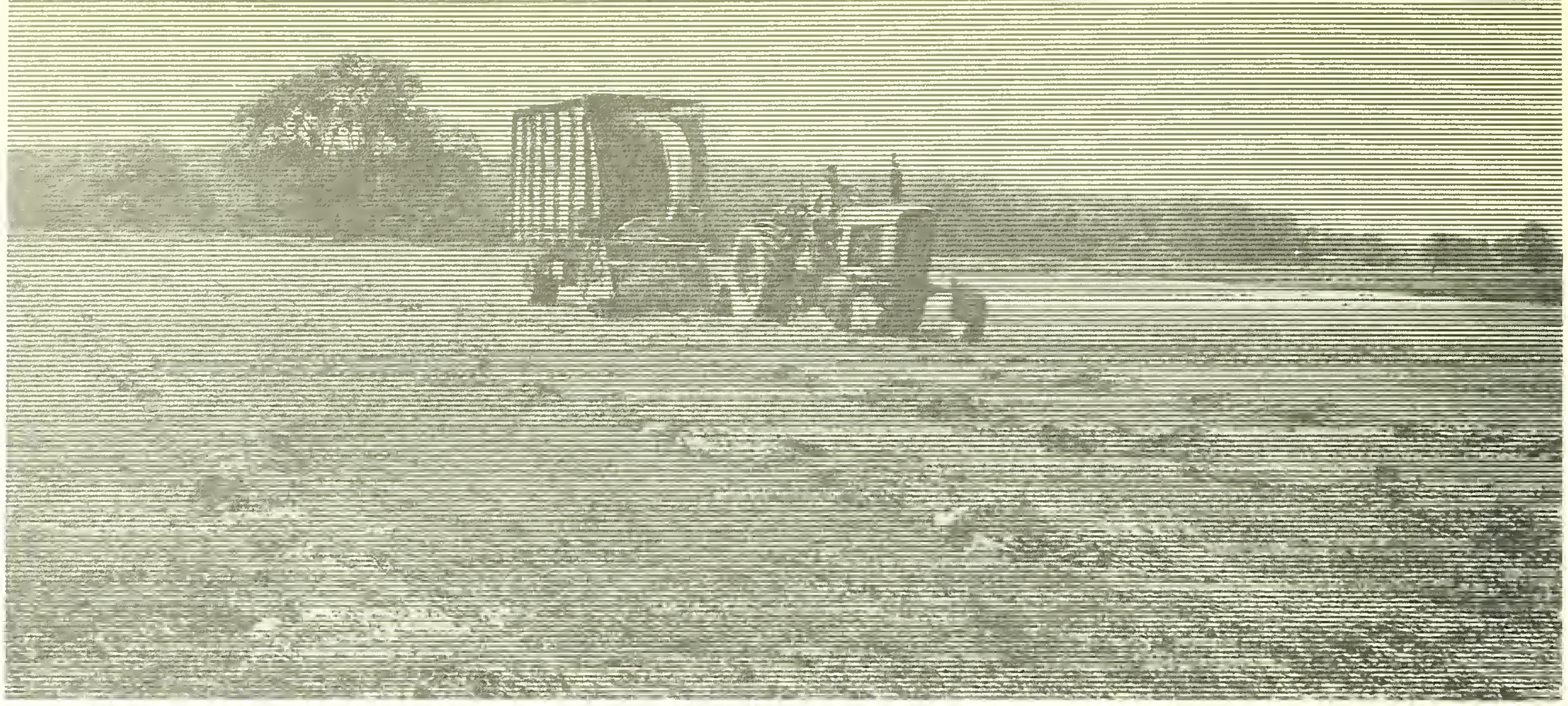
Land use planning and control

Industrial and residential uses of land are spreading throughout many farming communities. Development is usually haphazard. It takes place without consideration of all the people in the area affected.

The unplanned scattering of residential and industrial developments through farm communities has forced land prices up beyond levels which can be paid by farmers for farming purposes. Property taxes have increased to pay for services necessary for residential and industrial development. Air, water and land pollution from wastes and by-products have had undesirable social and economic effects on other land users.

Education

The educational system is not oriented to the needs of farm



children because it has a strong urban bias to which the child does not relate.

On the other hand, farm children's parents and the parents of their friends are usually employed in farming or in a related occupation. Career guidance programmes are not usually designed to take account of this fact. As a result, many farm children drift into farming when this may not be the best alternative open to them.

Education outside the school system for farmers and young people considering farming as a career also leaves much to be desired. People entering farming need to be provided with more knowledge regarding the economic future of the industry. There is also a need to introduce them to other alternatives which, with sufficient knowledge, they might find preferable.

Non-formal education made available to those currently farming has not emphasized effective farm management. Generally speaking, non-formal education for farmers has emphasized individual techniques of production to the exclusion of many other considerations. Not enough emphasis has been given to instruction in achieving the best mix of techniques. Farmers must have a greater opportunity to learn how their industry works and how their problems arise.

Taxation

Farmers carry a major burden of taxation in Ontario even though they do not generally belong in the higher income categories. Most non-farm enterprises have the ability to influence prices they charge for their products. When taxes are increased, they are able to pass along this cost through higher prices.

This is not the case with most farmers. Individual farmers have little power to determine the price they receive for their products. Because of the competitive structure of the farming industry, it takes a long time for changes in costs to be reflected in higher prices.

The greatest burden of taxation imposed on farmers in Ontario comes through property taxation which bears little relationship to the income position of the taxpayer. The property tax bill does not change according to the ability of the taxpayer to pay.

Farming requires large amounts of real estate in order to operate. More profitable businesses with lower property requirements pay less property tax than farmers. There does not seem to be any principle that would justify this.

It is usually claimed that the property tax is a way of charging people for services they receive. There often appears to be little relationship between the property tax bill of most farmers and the services they receive. These taxes are often used to pay for services needed by non-farm residents and industries in the municipality. For instance, a large portion of educational costs is met through the property tax. It is difficult to find any basis for suggesting that educational services should be provided through the property that a person owns. The same holds true for a large part of municipal investment in roads, sidewalks, water and sewage systems, and welfare programmes. The farmer pays a higher tax when these are developed, even though he gets little if any direct benefit from them.

The income tax system imposes a more reasonable burden on farmers than the property tax. The rate of tax a person or family pays is related to his ability to pay the tax. However, the income tax system does not take into account the forced savings aspect of farm investment. This forced saving reduces the ability of a farmer to pay taxes in the current year.

Alternative employment for farmers

As more and more farmers are faced with low income, the need for them to seek employment in other industries becomes more pressing. Industrial development in Ontario has not been sufficiently dispersed to make employment changes easy. Industrial development has been concentrated in the 'Golden Horseshoe' around the western end of Lake Ontario. New industries have not developed rapidly enough in many other regions of the province.

Over much of rural Ontario, industries which developed in earlier days are being phased out. These industries either produce goods no longer required, or are being bought up and consolidated into larger units located in the cities. The result of this trend in rural communities has been obvious. Local nonfarm job opportunities are decreasing during a period when there is a major need for movement of people off farms. These areas have high rates of unemployment, making competition for jobs extremely tough. A low income farmer in such an area cannot look at his non-farm alternatives very optimistically. The chances of his obtaining a job in his home community are small. If he does get one it is likely that it will be in a firm or enterprise which also has a limited future. Since these enterprises are in difficult straits, the incomes they offer to their workers may not be much more attractive than can be offered on farms.

It is not just the farm industry which is in difficult straits. Except for parts of southwestern Ontario, the industrial base of many rural communities in Ontario is collapsing. The present pattern of industrial development has robbed much of rural Ontario of any possible relief which might be offered through non-farm industrial development.

The lack of adequate incomes for both farm and non-farm people in these communities means that shops and other businesses face conditions of falling sales and lower incomes. The process grows on itself. Low incomes, falling population and unemployment mean that people do not buy as much as they once did in the rural towns and villages. This has the effect of further reducing employment opportunities.

The choice presented to low income farmers is not an attractive one. Either they must stay on the farms or leave their local communities and move to the large urban centres of southwestern Ontario. This involves a major social change for the family. Such families do not find the way of life offered in the large city to be very attractive.

The farmer will not always be able to receive a satisfactory price for his house, land, farm buildings, and machinery to move and obtain adequate housing in the city. He may have to take time and spend money to obtain training to find a new job. Many farmers conclude that in the end it is easier for them to remain where they are, often trapping their children in a similar desperate situation.

What do farmers want?

Social security

Society offers the individual many benefits and opportunities through public programmes. It is generally agreed that all people should be given equal access to them. Farm families live in rural communities where it is often difficult to provide public services on the same basis as they are provided in urban areas. Most of these services have been established as the result of specific desires of all the members of the population, including farmers. It seems appropriate for society to provide services of equal quality to them.

What are some of these services for which people have expressed a need? There has been a demand for educational opportunities of equal quality and quantity. Communities want cultural and recreational activities suited to local needs. People want the opportunity to seek new jobs and new places to live without being discriminated against because of race, religion, or previous occupation. People want medical and health services, retirement plans and welfare programmes regardless of their occupation or place of residence.

People want the right to participate in the political process. A basic feature of the democractic system is that all people should have equal opportunity to participate. It provides certain guarantees to ensure that minority groups are not entirely dominated by the majority.

Farm people have much the same social values and goals as other people in Ontario. They have generally participated in the development of new social programmes. Public policy makers must be more aware of the social objectives and goals of farmers in the future, and of the need to integrate these with specific policies aimed at particular problems.

Adequate incomes

The need for economic security is closely tied to the need for adequate incomes. Farmers want sufficient economic security to meet the needs of their families. They must not be denied the basic clothing, housing, food and recreation necessary to maintain a healthy family life.

Many farmers do not have sufficient training and resources to obtain the minimum level of income which we have established as being essential to meet the basic needs of farm families. Farmers in this position are not satisfied with the situation. They have been the victims of changing conditions within our economy.

Action can no longer be postponed. Farmers want higher incomes. They want new job opportunities. They want some assistance in meeting the costs of moving to new jobs and new communities. They want to ensure that their children acquire adequate education, and are given opportunities denied to their parents. They want income benefits consistent with their ability to contribute to production in the economy. They are willing to act in accordance with these desires. All they request is the opportunity to do so.

Our Committee has investigated various methods of providing low income farm families with adequate incomes. We support changes in the agricultural industry and in the economy which will provide adequate incomes to all families with minimal direct government support. Such changes will take time. In the meantime, we support the view that society should provide income support to these families. This support must take a form that does not interfere with the longer term structural changes needed.

Programmes offered by society to low income farm families must endeavour to allow these families to live and work under conditions which they find desirable. Many rural families do not wish to live in huge urban cities, far removed from country and rural life. It is important that society recognize the validity of this desire. Many important questions are being raised today concerning the quality of life offered to families in huge urban concentrations. It would be tragic if low income farm problems were considered solved by simply increasing the numbers of people caught in certain kinds of undesirable urban conditions.

Adequate returns to resources

The desire for adequate returns to resources is separate from the desire for adequate incomes. In their efforts to achieve adequate returns to resources, producers are endeavouring to obtain the maximum benefit from the resources they use. If they do not receive adequate returns, both they and society sacrifice some of the production potential.

A number of farmers at present are earning incomes adequate to meet the needs of their families even though they are not earning adequate resource returns. A farmer who owns sufficiently large quantities of capital and land may earn an adequate income from these resources even if the resource returns are not comparable to other industries.

On the other hand, it is possible for a farmer to be earning adequate returns on his labour, land and capital, and yet not have an adequate income. This would occur if his farm were of such a small size that it did not fully employ his labour. A farmer could be earning $2.00 per hour from the labour he puts into the farm, but his small farm might require only 20 hours of his labour a week. This would not provide adequate income to meet the basic needs of his family.

Most farmers are now demanding that the agricultural industry be reorganized so they can be assured of resource returns comparable to those earned elsewhere. These farmers want farming put on a sound commercial footing. They want some indication of prices they are likely to receive, and the amount of product they are likely to sell in the future, so that they can make sound investment decisions.

Retaining as many people as possible in farming

The farming community and society have long considered farming to be a desirable way of life. The general philosophy of both society and farmers has been that as many people as possible should be retained in farming. This attitude accounts for the many public programmes designed to keep a large number of people on the farm.

The greater the number of farms which remain in agriculture, the greater will be the number of people who can continue to pursue their living in an occupation which they enjoy. Our studies indicate that there are few cost advantages to be found in very large scale farms.

Farmers can legitimately hope that the number of people on farms will not be drastically reduced in the future. Nevertheless, some reduction will take place if the structural changes required in the industry are encouraged. Agriculture has for many years attracted more than enough new entrants. There is a need for a reduction in the rate at which young people take up farming as a career. It is an unfortunate truth that there are too many people farming. Young people must only be encouraged to take up farming if they have sufficient skills and resources to earn adequate returns and adequate incomes.

Freedom

Farmers are concerned that they be allowed to retain as much decision-making freedom as possible. Freedom is not easily defined. Freedom can be looked upon as the basic right of every individual to do as he pleases. However, individual freedom carried to an extreme reduces the freedom of all other people.

Generally our society agrees that individuals should not be free to act in a way that is socially harmful to others. People are not free to kill, steal, trespass, drive as fast as they like, and to break other laws which we consider necessary to provide a social setting which is safe and satisfactory in which to live.

When it comes to making economic decisions, we are much less clear on the extent to which individuals should be free to do as they like. Labour unions do not allow people to work as long as they like wherever they like. Businesses operate under many government restrictions which prevent them from doing entirely as they please.

Farmers are generally cautious about allowing any organization, whether it is their own or government, to interfere in their decision making. This is particularly true in determining how much production should be allowed, and who should be permitted to produce it. Many farmers believe that production controls unnecessarily restrict their individual freedom.

At the same time it is becoming more and more common for large companies in the processing business to exercise this very control.

Planning and control of production by farm organizations has the potential to improve the income position of many farmers. People with improved incomes generally have greater freedom to choose the things they consider desirable for themselves and their families. Our Committee believes that an attachment to complete independence in making individual production decisions restricts a farmer's ability to make much more important choices. The production of a saleable product is only a means to an end. The freedom granted by higher incomes is likely to be more important than complete freedom in all production decisions.

Likewise, our Committee is convinced that industries should not be allowed complete freedom to develop wherever and however they see fit without reference to the effects of these decisions on society. People working in these industries are not free to determine where they are to live. They must seek jobs in the areas where the industries locate. Programmes intended to control the regional pattern of industrial development in Ontario could well increase the freedom of people to live and work in locations they consider desirable. This is particularly important to farm people seeking higher income employment in other occupations.

Farm participation in decision making

Most farmers want to participate as much as possible in making decisions which affect them. This principle is basic to a democratic society.

However, there are many different kinds of organizations, and many different kinds of decisions which have to be made. Some organizations are designed to carry out administrative functions and their decisions are largely technical. Examples among farm organizations are marketing boards and supply co-ops. Farmers should decide general policies and objectives. However, farmer interference in technical decisions may actually reduce the effectiveness of the organization. It is essential that many decisions be left to trained or highly experienced people fully aware of the problems and implications of the decisions. The need for greater separation of policy from technical and administrative decisions is becoming critical as the technical role of marketing agencies for farm products becomes more complex.

Other organizations with a need for maximum farmer participation are those which have a largely political role, in the sense of expressing the needs, wishes and desires of farmers to society, governments and business. It is essential that every farmer have a key role in all such decisions. Without this participation, it is impossible for these organizations to reflect the needs of farmers.

Chapter 2: Farmers and their industry

The changing face of Canada

The people of Canada have many reasons to be proud of the way their country has changed and developed since the days of settlement. Canada today is a developed industrial nation. We have shown no hesitancy to take part in the great industrial change engulfing many parts of the world.

Nowhere in Canada has this industrialization been felt with greater effect than in Ontario. It has been predicted by one authority that the industrial area surrounding Lake Ontario will soon rival the greatest of the European industrial areas in size and production.

The effects of industrialization

Industrialization has had many effects on the lives of the people of Ontario.

New and profitable investment and employment opportunities have been opened up. Incomes have been increased at a rapid rate.

The proportion of the Ontario population living in centres of 1000 people or more has risen from 25% in 1881 to 80% in 1966. The bulk of this concentration has occurred in the counties adjacent to Lake Ontario and Lake Erie.

These large urban centres act as poles of attraction to business enterprise. As enterprises move toward large centres, the working population is attracted to the new jobs. Rural people make up a large proportion of this moving population. This shift in population from a rural to an urban setting is closely related to the increase in industrialization and the growth in the output of goods and services. These trends have created huge problems.

The advantages of large cities are obvious. As commercial centres they offer a wide range of specialized services which require the large and accessible market provided by an urban population. There are important economies in the provision of public services such as water, gas, and electricity to a highly concentrated population.

On the other hand a great many costs appear as the inevitable result of dense concentrations of people. As human congestion increases, transportation becomes more difficult and costly. Long distance commuting is a good example of the kind of difficulties created. Dense concentrations of people and industries give rise to pollution of air and water. This makes life in the large urban centres uncomfortable, and in many cases unhealthy. The physical environment of cities seems to deteriorate as they become larger.

No one is obliged to live in large cities, but this is not a realistic objection to their development. Business enterprise is inevitably drawn to them. It is encouraged by the availability of skilled labour and specialized personnel, accessibility of market and technical information, the financial services and commercial benefits of large centres. There is little incentive for individual businesses to consider the impact of their decisions on the community.

If business is not always attracted to the heart of metropolitan areas, the tendency is to locate on the fringes of these dynamic centres to participate in their advantages. It is in this light that the concentration of industry and population in the 'Golden Horseshoe' should be viewed. The whole phenomenon is self-reinforcing and will continue to be so as long as private decisions are made without a full accounting of social costs.

Our studies show that the chronic income problems occur in agricultural areas far removed from urban-industrial activity. The excessive concentration of industrial activity in the 'Golden Horseshoe' creates problems in urban communities and at the same time makes it difficult for farmers and rural people to find suitable employment without uprooting themselves. They are forced to move into a strange, confusing, and in many ways undesirable new environment. There are alternatives to this pattern which would be of greater benefit to society.

Land availability in no way restricts industrial and residential development to highly concentrated areas. Our studies show that land is plentiful in the province. If its use is well planned, sufficient quantities of land can be made available for industrial and residential development outside the 'Golden Horseshoe' without adversely affecting the needs of agriculture. The reasons for the large concentrations of people around Lake Ontario are totally unrelated to the availability of land.

Growing demand for goods and services

Rising incomes and an expanding population have meant a growing demand for most goods and services. This demand has acted as a stimulus for expanded production, increased employment, and increased profits and wages in most industries.

The development of technology has meant that more output can be produced with the same number of people employed. The growth in demand for products has outstripped the growth in productivity resulting from technological change. As a result, there is a general upward pressure on prices. More people are needed to produce the extra quantity of product demanded. Workers do not need to undertake the costly process of moving out of these industries. In fact, new workers are being recruited every year.

What about individual industries?

The facts of industrial change in Ontario seem encouraging at first glance. But the picture is not one that inspires complete optimism. For some industries, the picture is not nearly as bright. They find that they are being bypassed by the general pattern of a growing economy. Many of these industries are located in out-lying rural communities.

Agriculture is such an industry. There is a limit to the quantity and type of farm products each individual can eat. As incomes rise people do increase the quantity and quality of the food they eat. This benefits producers of such products as beef at the expense of potato or wheat growers. However, once incomes reach a certain level, people find their basic food requirements remain relatively constant from one year to the next. They begin to spend their extra incomes on other goods and services. Thus while the demand for luxuries continues to grow as rapidly as incomes, the demand for farm products does not. Farmers find that people no longer want greatly increased quantities of farm produce. Increased demand for farm products largely comes through growth in the size of the population or through increased exports.

What are the choices for such industries?

At first sight, the solution may seem obvious. If larger quantities of some products are not needed, then we simply should decrease the rate of growth in output of these products. The output which a worker can produce has been increasing in all types of production. In agriculture these productivity increases have been even greater than in other sectors of the economy. It has been estimated that each year every farm worker is able to produce 3½% more farm products than in the previous year. Demand has been increasing at an average of 3% for all commodities.

If demand for the product of an industry is not growing as fast as the production, the industry is faced with four choices.

One choice is to make no change. Production could be increased at the same rate as before. The same number of people could be left in the industry and the ability of each of them to produce left unchecked. The result of this choice would be that the added production would have to be sold. The only way to sell that extra production would be to keep prices down to a level where the product is cheap enough to clear the market.

The result is that downward pressure on prices in the face of rising costs will mean lower rates of return to resources in the industry. Many resources already committed to the industry have no other alternative, and so remain in production even though returns are inadequate. Lower rates of returns on resources result in lower incomes. People in the industry become part of the low income section of society. This choice dictates that certain people are doomed to poverty. When incomes become low enough, some will leave the industry. But incomes will be kept at a constantly low level as this forced evacuation takes place.

How long will it be before low resource returns and low incomes drive enough resources and people out of an industry to bring production into line with the quantities society demands? That depends on the industry. In the case of farming, unless society as a whole gives some help, most people once employed are likely to move out only in desperation. Their sons and daughters are the ones most likely to move. Thus it often takes a generation before low incomes drive even part of an individual family out of the industry. Throughout this period all the people associated with the industry will bear the costs in terms of low standards of living.

The second choice is to stop the increase in productive capacity of people in the industry. Technological change and development would have to be brought to a standstill. Those employed would have to be prevented from increasing their educational levels and their skills. Our concern for efficiency would have to be forgotten. Imports from the outside world would have to be prevented. This choice dictates that we isolate our economy from the rest of the world. All of those things which have led to the rapid rate of overall development of our economy would have to be rejected. The terms offered by this choice are probably not acceptable.

The third choice is a modified form of the second. Rather than preventing continued productivity increases they could be brought under closer control. Improvements in techniques, technology and efficiency could be guided by the industry so that the people would not be burdened by the changes taking place. Improvements in skills and educational levels could be directed so that people in the industry would be more adaptable and better able to deal with the problems facing them. Production increases could be brought under the control of the people in the industry. They could decide collectively how rapidly they wanted changes to occur.

The fourth choice is to reduce the number of people employed in the industry. If the sum of the products each worker can produce is greater than the amount of product which can be sold at going prices, an obvious answer is to reduce the number of workers. Workers could be transferred to other industries. There must be other jobs available which they know about, and the costs of relocation must be taken into account. Moreover, these workers must have the skills and knowledge necessary to work elsewhere.

If this fourth choice is to be accepted, there would be a great need for many effective government adjustment policies. There would need to be some assurance that the productivity of people remaining in the industry did not increase to such an extent that the out-migration had no effect on total production.

These choices are not mutually exclusive. A combination of the four could be adopted. People in the industry must be willing to plan to take the future into their hands. If they do not, events will take care of themselves. This will mean that the first choice – making no change and accepting low prices – is the choice accepted by the industry, simply because that is the inevitable result if we do nothing.

Growth in food production

Farm production in Ontario

The total production of farm products has been increasing yearly during this century.

There have been two reasons for this growth. Increasing quantities of capital have been added to the industry. The productivity of inputs already committed to agriculture has been increasing rapidly.

It is not easy to measure changes in the quantities of farm inputs used. It is fairly clear that the quantity of capital has been increasing. Machinery, equipment, fertilizer, chemicals, feed supplements and new buildings are becoming more and more important inputs for a farmer as time goes by.

The use of improved land has decreased slightly in this century. However, acreage is not a particularly good measure to use in assessing the total contribution of land to farm production. Many improvements have been made in farm land. If some measure were put on the quality as well as the quantity of land being used, it would be clear that the contribution of land has also been on the increase.

Labour use has declined. The number of people employed on farms fell by 27% between 1949 and 1965. Even these figures do not give a clear indication of the changing contribution of labour to farm production. Much of the labour leaving agriculture has not been fully employed. Many farmers have had too few resources to fully employ their own labour. As some labour leaves agriculture, there is usually a consolidation of land and capital. For this reason, a decrease in the number of farmers in agriculture does not necessarily mean that less labour is being used in total. It could simply mean that some of the labour resources left in agriculture are more fully utilized.

The productivity of inputs committed to agriculture has been increasing each year. By this we mean that a given mix of inputs is able to produce more product than previously. Improved seeds, plant types and livestock breeds are constantly being developed. Improvements have been made in the capacity of machinery and equipment. Better ways and means of organizing existing inputs have been developed. Increased specialization of production has made management more effective and has allowed farmers to take advantage of certain benefits of larger size.

Individual farmers have made major contributions to productivity increases. This is largely a result of their improved management ability and improved skills resulting from experience, informal educational activities, reading and studying.

Effect of imports on total product available

Some farm products tend to move into Ontario from countries and regions outside. Agricultural production is increasing in most areas of the world. As this production increases beyond the capacity for consumption in the area in which it is currently marketed, it seeks new markets. Ontario is an area with a large population and a well developed transportation and food distribution system. As a result, food producers in other areas are endeavouring to develop a market in this province.

Very few areas outside of Ontario have developed a means of planning farm production in accordance with the demand for the product. Many agricultural areas experience periods of severe over-production in certain products. Often this extra production is dumped on the Ontario market, causing a large increase in the supply of farm products. This intensifies the problem of over-supply, creating added difficulties for our farmers.

Growth in demand for farm products

Products marketed must be sold

We have noted the continuing upward trend in the quantity of farm products coming to the Ontario market. Products which reach the market must be sold. It is thus important that we examine the conditions which affect the demand for food products.

Demand and price

People in our society demand all kinds of different goods and services. They express this demand through their purchases. If wholesalers and dealers find they have more of some particular goods than they need, they will generally reduce its price until they can sell the quantity they have. They will take less of such products from producers.

If businessmen find that they do not have enough to meet the demands of consumers, they usually increase the price. The higher price reduces the amount which consumers buy. Businessmen will also try to purchase more of those items which are in short supply. In the effort to do so, they will increase the prices which consumers pay. This will induce more production, bringing production into line with demand.

This process does not work effectively for farm products. At the retail level, consumers seem to respond very little to changes in the general level of food prices. The total quantities of food which people buy during a given month or year seem to be roughly determined for each person, regardless of the price.

This has a number of implications for farmers. If there is over-production of a food product in any one year, the price must be forced down to a very low level before the market can be cleared. If over-production persists, food prices will be kept at a continuously low level over a long period of time.

It also means that during years in which there is a crop failure, people will bid prices up to a fairly high level before they will make a decision to reduce their consumption of that product. Individual farmers often mistakenly view these temporary high prices as likely to continue. This accentuates over-production problems in the following production period.

Changes in demand over time

Over time, changes do take place in the kinds and quantities of food which families and individuals consume. For one thing, people's tastes change. As income rises, people develop a taste for high value food. Their taste for lower-value food declines.

Many of the foods which higher income people prefer involve larger amounts of farm value per unit of product consumed. For instance, more farm resources are required to produce a pound of beef than are required to produce a pound of flour. As tastes shift away from carbohydrates towards meat and other related products, opportunities are created for increasing the amount of farm value that goes into each pound of food.

As incomes continue to increase, people reach a point where they will add little farm value to their expenditures for food. They will increase their spending on food products at the retail level, but most of this extra expenditure will be devoted to paying for processing, packaging and retailing services. The retail cost of these foods may be double the cost of the basic farm products put into them. The extra expenditure goes to meeting these service costs. Little of it is used to increase the per capita consumption of farm products and the income of farmers.

One major opportunity for selling increased quantities of food in Ontario arises out of population increase. As the population of Canada grows, so does the demand for farm products, even though the quantity consumed per capita remains relatively constant. A major difficulty has been that population changes have not been large enough to have a major effect on demand relative to the growth in production.

Consumption of farm products outside of Ontario

Ontario has long been an exporter of farm products. However, the opportunities for further expanding these exports appear limited.

In most areas of the developed world, demand for farm products has not been keeping up with production. Many countries are resorting to various kinds of barriers to trade to prevent further increases in imports of farm products. With the exception of a few products, Ontario producers would appear to have little opportunity for increasing their sales in these areas.

Certain areas of the developing world suffer from shortages of farm products. In the past, efforts have been made to export from Canada to these areas. Generally these countries lack sufficient purchasing power to buy large quantities of Ontario farm products at current prices. Tapping this market would require that prices be lowered considerably, further intensifying Ontario farm income problems.

There is a good case for suggesting that developed countries should make low-priced food available to poor countries as part of a balanced development plan. There is no reason why the farmer should bear the cost of such a programme. If the people of Canada wish to aid developing countries, then they should bear the cost. The Government of Canada should buy farm products at realistic prices on a continuing basis and bear the cost of selling these products.

The Committee recognizes however that increased food production through improved technology is essential and realistic in developing countries. This is now taking place and will further limit future export opportunities.

Production, demand, and the industry

Expansion of production in the face of low resource returns

Chronic low returns to resources already committed to agriculture have long been a problem. Increasing operating costs and falling, constant, or slowly rising product prices have meant that returns to resources in agriculture usually fall to a low level.

Given this fact, why do so many resources stay in agriculture? One reason is that farmers are unable to obtain sound future indications about the behaviour of input costs and product prices. This is particularly important for new machinery and equipment. When a farmer purchases a new piece of equipment, the investment may be a sound one based on current prices and operating expenses. However, as time passes, product prices may fall and operating costs increase. These two pressures lead to a situation under which adequate returns on capital already committed cannot be maintained. To avoid this problem, farmers need better indicators regarding the future behaviour of prices and costs. They must plan their investment decisions under conditions of greater certainty.

A further difficulty is related to the problem of 'trapped resources'. New and profitable resources can be introduced but there may not be an out movement of resources no longer earning an adequate return. There must be a clear distinction between new resources introduced into an industry and old resources which fail to leave or are unable to leave.

Economists sometimes argue that resources committed to an industry but not earning an adequate return will move easily in search of employment elsewhere. However, these resources are often unable to find more profitable employment. The opportunity for a farmer to dispose of a second hand combine is extremely limited. It has no use outside agriculture. A new combine introduced into agriculture is there to stay, regardless of how low the return on the money invested falls in the future.

Labour employed in agriculture is in a similar position. Many people in farming today entered at a time when the income prospects looked promising. In the period immediately following World War II, farm prices were strong. Many government policies were designed to make farming appear attractive from an income point of view.

Today many of those people are virtually trapped. Their income earnings are low, but their alternatives do not offer anything better. Their age, training and background mean that their opportunities for adequate jobs outside agriculture are extremely limited.

As a result, resources do not move out of agriculture as new resources are introduced. This tends to accentuate the pressure of increasing production.

Production and long term prices

Production of farm products has been increasing rapidly in Ontario. Demand has not been growing fast enough to keep farm prices increasing at the same rate as other prices in the economy. The real purchasing power derived from the sale of each unit of farm products has been falling.

Farm product prices have increased by 13% since 1951. Prices of inputs used by farmers have increased by 30%. Farm taxes and interest rates have doubled. Costs of living for farm families have increased by 33%. These factors together have meant falling resource returns and low incomes for farmers.

The slight increase in farm product prices between 1951 and 1967 has not been a trend all in one direction. Prices dropped significantly between 1951 and 1957. In the 1960s prices have been increasing, although not to the extent of prices of other goods and services in the economy.

Fluctuating prices in agriculture

There have also been fairly large fluctuations in farm product prices. Fluctuations in the supply of food products are largely due to the effect of changes in exports. If supply in other regions or countries decreases in any one year because of some special factor, this will cause temporary increases in prices for Ontario products. If supply temporarily increases in those areas, it will have the opposite effect.

Similarly, production in Ontario does not increase along a steady path. Special weather conditions or the discovery of a new technique can cause large short term changes in supply.

These short term changes in both demand and production cause large changes in the price of products. It is difficult for farmers to know whether a particular price increase is part of a trend, or merely a short term fluctuation. These fluctuating prices are a poor basis for farmers' production and planning decisions.

A year or two of high prices may encourage a large number of farmers to invest in new machinery and equipment. This investment will cause a large expansion of output. The extra output will glut the market, causing prices to tumble. The individual farmer is left to contend with low returns and low incomes.

Technological change in agriculture

Changing technology has played an important role in farm problems as we know them. Technological change takes place when any new input is introduced into an industry in such a way as to increase the quantity of product each person in the industry can produce. If the number of people in the industry remains the same, the total production of the product increases.

Most farmers are familiar with a number of recent technical developments in agriculture. New hybrid corn varieties have increased the amount of corn that can be produced with the same quantity of other inputs. Chemical weed sprays have had a similar effect. Corn pickers and combines are examples of technological change through mechanization.

The whole question of whether or not such technological change is beneficial to the people in the industry depends on what happens to this extra production. If society needs and wants that extra production, the effect can be beneficial. Society will indicate whether it wants the added product by the price it will pay. If it pays a price that gives the producer something more than the cost of introducing the new technology, then the technology is beneficial to the producer who introduces it.

However, if new technology gives a producer a return equal to or less than the cost of its introduction, it is not beneficial to him.

If a number of people introduce new technology, this will usually increase total production. This added production will have a depressing effect on prices. People who have not introduced the new technology often receive a lower income as a result. Likewise, those who introduced the new technology do not obtain as great a return as they expected. The real benefit goes to consumers in the form of lower food prices.

The need for a programme

The studies of this Committee have made it clear that a new and positive approach is required to solve the farm income problem.

It demands that a new and integrated agricultural policy be developed by all the provincial governments and the Government of Canada.

For many years governments have been following a haphazard approach to agricultural problems. The general policy has been to attack individual problems as they appear. Many programmes end up conflicting with each other. Worse yet, they often conflict with the ultimate objective of increasing farm incomes. This approach is unacceptable.

Farm costs must be more effectively controlled. To keep farm costs as low as possible, increased efficiency must be encouraged in industries supplying agriculture with inputs.

There is also a need for a change in attitudes and ideas. Farmers are the first who must make such a change. For many years many farmers have believed that they should simply have increased prices to solve their income problems.

This approach is much too simple. Higher prices under present conditions would simply cause a further expansion of output. With current demand conditions this product could not be sold at these higher prices. Even if higher prices could be obtained, they would not solve the income problems of many farmers because they do not sell enough product.

An effective policy must free many resources presently trapped in agriculture. Technological change must be permitted to continue, but it must be directed in such a way as to benefit producers as well as consumers.

It would of course be possible to retain all of the resources presently in agriculture and still provide adequate incomes to farmers. This would involve slowing down the rate of technological change and reducing the growth of production. Such a policy is extremely costly to society. It involves reducing the amount of goods and services produced. Rising prices also make the province less competitive in markets outside Ontario and Canada. This would have serious implications for our balance of payments.

Our Committee is of the opinion that all of society has much more to gain from a policy of controlled change. Production must be planned so it is geared more closely with demand.This would ensure that prices received result in adequate returns to resources.

At the same time many of the underemployed trapped resources in agriculture must be transferred to other more productive employment. The most important of these trapped resources is human labour. People with little opportunity in agriculture must have new and better options.

To succeed, such a program must ensure that people transfer out of agriculture of their own free will. Society must bear some of the costs involved when people transfer from one occupation to another. All of society must be involved in the process of change.

The people of Ontario have a great deal to gain from a programme of controlled change. Resources in agriculture currently earning a low return could be much more productive in some other employment. The fruits of this increased productivity would be distributed to all of society.

Increased incomes for present low income people would also strengthen the social and economic structure. Higher incomes would increase the demand for all goods and services being produced in Ontario. Fewer low income people would produce a more stable social order.

Many structural changes are needed before farmers will have income earning opportunities equivalent to other people. This change will take time. Society must ensure that the basic needs of farmers and farm families are met during the period of change, through a programme of income support for people caught in the web of low incomes.

PART II: FARM OPERATIONS

Chapter 3: The farm as a production unit

Goals for the industry

Farmers have a right to expect that certain goals achieved in other parts of the economy can also be achieved in farming.

Corporations set their goals in terms of a return on investment established by their shareholders through their Boards of Directors. The management of the corporation then so organizes the business to achieve the stated profit objectives.

Most farmers would consider this kind of planning quite unrealistic in farming. It has been impossible to establish profit objectives for farms in the way that these objectives are established for corporations, because farmers have had much less control over the kinds of products they produce, the prices they receive for these products, how much is produced, and when they are marketed. Because there is a large number of farms in Ontario, and because no one farmer can control the price for a farm product or even influence it in a small way, this kind of profit planning has been impossible. In most instances, the only course that farmers have been able to follow is to produce the product and wait to see what profits result after it goes to market.

And yet, if farmers are to receive their fair share of the benefits of society, some profit planning is absolutely necessary. If agricultural policies in Ontario are to be designed to yield acceptable returns to farmers, then it only makes sense to determine what these acceptable returns should be. Only then can policies be set and programmes developed to produce acceptable returns. Although no one farmer can set profit objectives and be assured of attaining them by himself, these goals can and indeed must be set for the industry as a whole, before any reorganization of the industry and the farms within it can take place.

This Committee has set out three goals for the agricultural industry:

1. Acceptable returns to resources for reasonably well-managed farms.
2. Adequate incomes for farm operators.
3. A maximum number of farms of efficient size in the industry.

There are several conflicts among these goals. For the moment let us try to define what these goals should be for an individual farmer, the kinds of measurements necessary to find out whether or not these objectives are being achieved, and the number and size of farms that would have to be operated if the objectives are to be met.

The concept of viability

The first two objectives (acceptable returns to resources and adequate incomes) can be achieved at the level of the individual farms and farmers in Ontario. The third objective (a maximum number of farms) can only be achieved by planning at the industry level.

The first problem, then, is to determine whether individual farms and groups of farms are achieving adequate resource returns, and whether individual farmers are receiving adequate incomes.

It is necessary in this discussion to distinguish between farms and farmers. A farmer may supply some or all of the labour used on his farm. He may supply some or all of the capital. He usually supplies all of the management of the business. The farmer and his income must be considered separately from the farm business itself and returns to labour and capital in that farm business. Only in this manner can part-time farms and incomes from sources other than farming be considered.

The viability of the farm relates to whether or not the rates of return to all resources on a particular farm (labour, management and capital, including land) are above or below some acceptable minimum. The viability of the full-time farm operator relates to whether or not he is able to obtain some minimum annual income for family living from his own resources employed in farming.

The viability of a part-time farmer depends on his ability to earn a minimum annual income for family living from all sources.

One final point should be made regarding viability of farmers who are getting close to retirement. These farmers are often quite willing to accept less than adequate returns to resources. They may wish to continue farming even though they have no desire to increase their use of technology to bring their farm operation to a viable level. The farms often may not be viable. The farmers themselves may be viable, however, because their farms are often completely paid off and they are left with adequate spendable income once all their farm expenses are paid. The Committee considers this to be an acceptable and, in fact, desirable situation.

The viable farm

Using the above definitions, the viable farm can be described as a business that is able to yield at least minimum rates of re-

FIGURE 1

A sample set of accounts for the farm

Balance sheet

Assets		Liabilities and equity	
Buildings		Loans	$20,000
purchase price	$35,000		
Machinery		Equity	20,000
purchase price	25,000		
	60,000		
Less			
depreciation taken	20,000		
Current book value	40,000		40,000

Statement of farm income and operating expenses

Gross Income		$20,000
Expenses		
Hired labour	$ 1,000	
Interest on borrowed capital	1,400	
Other operating expenses	3,800	
Depreciation, 10% of $40,000	4,000	
Rent, 150 acres at $20 per acre	3,000	
Labour return, 2,000 hours @ 1.80 =	3,600	
Return on owned capital, 7% of $20,000 =	1,400	$18,200
Return to management of farm		
Minimum return		$ 1,000
Net profit		800

turn to the resources employed in farming. It is important to realize that the viability of a farm defined in this manner is constantly changing with changes in production practices, prices for products, and the costs of inputs that farmers buy. As costs of farm inputs go up, unless these costs are offset by improved technology or rising prices, farms must continually expand to make the same returns. A viable farm today may not be a viable farm tomorrow.

At any particular time, however, and with the prices, costs and production methods that prevail at that time, a viable farm can be defined. It must achieve certain minimum returns to the farmer's resources used in farm production after cash expenses such as seed, fertilizer, livestock feed, fuel and hired labour are covered. These rates for the farmer's labour, capital and management must be comparable to acceptable minimum rates of return to similar resources in other parts of the economy.

Labour

The labour rate of return would be a minimum hourly rate for the farmer's own labour. This is the least rate that farmers must pay full-time hired workers, and the rate would be established each year for a certain maximum number of hours of productive work on well-managed farms. For instance, in its calculations the Committee used a minimum labour return of $1.80 per hour for 1966. In 1969 this minimum would probably be $2.00 per hour, to take into account increases in costs of living for farm families and rising wage rates in other occupations.

Capital

The rate of return on capital owned by the farm operator and used in the farm business would be established as the minimum interest rate he would have to pay if he were to borrow this money. For instance, if the current rate of demand notes at the local bank is 7%, then this would be the rate of return allowed on his own money. In determining the viability of the business, any borrowed capital would be charged as an expense at its actual cost.

A problem in determining the rate of return to capital is that of valuing the assets owned by the farmer. This is not a problem with buildings and machinery because the purchase price is known, and depreciation is taken annually so the 'book value' can be calculated at any time.

In the case of land, however, problems arise from the fact that there are numerous ways of valuing it. Some farmers would argue that the value of their land is the price they paid for it. But for those who bought their land a generation ago, the price paid then has no relation to the true value today. It creates a problem for those who may have bought their land recently at inflated market values; this value may not reflect the true value of the land for farming.

The farmers of Ontario must be realistic in pricing their land to determine whether the farm or the farmer-owner is viable or non-viable. The Committee is strongly of the opinion that the realistic cost to be allocated to land must be the farm-use rent value, or the market rent for land in the area. Any other value is artificial and misleading.

The Committee recognizes that this approach is a departure from present practice, but we believe it is the only way to ensure that viability can be determined on Ontario farms. **For these reasons, the Committee recommends that, when determining the viability of their operation, farmers keep unrealistically low land costs or unrealistically high (speculative) land costs out of their farm accounts by entering land as a rent charge in their operating statement.** This will be further discussed later.

In the opinion of the Committee, the appreciation of value of farm land should not be considered as a part of current farm income. To do otherwise would place beginning farmers in an unfair position in relation to older farmers who purchased their land at much lower prices than exist today. In addition, land values change for non-agricultural reasons, and such speculative values do not reflect market conditions in food production and marketing. This also will be discussed later.

Management

Many unsuccessful attempts have been made by competent people to put a value on the management service provided to the business by the farm operator. The problem is a complicated one because almost all farm operators provide both labour and management in the business. This is not usually so in corporate business, where labourers and managers are separate people and can be paid wages and salaries.

This Committee has been no more successful than anyone else in determining what should be paid for the management of farms. The problem boils down to a basic judgment about how much skill is required to operate a farm business, and how the size, degree of specialization and type of the business change its management requirements. One suggestion has been that management be paid a standard rate for farms of a particular size. For example, the operator of a one-man farm would receive $1,000 or $2,000 per year for his management as well as the minimum rate for the labour he provides. Another suggestion has been that the return to management vary with the total amount of capital (with assets valued at purchase prices) invested in the business. A farm with $100,000 in invested capital would require a management return of 1% to 2% of this capital value for an annual return of from $1,000 to $2,000.

In any case, the management return should serve as an indicator of the amount of money left after labour and capital employed in the business have been paid acceptable minimum rates. In corporate business, the management of a company is usually hired by the shareholders at fixed salaries. The owners of the business (the shareholders) do not provide the management, and they take their returns from the business in the form of a return on the share of capital they provide. Since farms are usually single proprietorships rather than corporations, the owner of the farm business provides all of the management. His capital and labour can be fixed at the level he must pay others for them, and anything left over (the 'residual') can be regarded as a return to his management resource. The farm business and the corporate business therefore differ in that the residual return from the corporate business goes to share capital, whereas the residual return from a farm business should most logically be paid to the farmer's management.

The return specified for management can be regarded as a guideline to determine what should be left over for the operator after his labour and owned capital have been paid the price he would have to pay others for them.

Accounts for the farm

To determine whether a particular farm is viable at any particular time, two sets of financial statements are required: a balance sheet and an operating statement.

The balance sheet would include all of the assets and liabilities of the business. Machinery, buildings and livestock would be valued at current book values. Land would not be included in this balance sheet; it would be assumed that the operator rents his land (whether he owns it or not). The balance sheet would therefore be for the farm business but not for the landowner.

The operating statement for the business would include the following items:

gross farm sales
current operating expenses
hired labour costs
depreciation on buildings and machinery
interest on borrowed capital
rental for land (at farm use rent values)
cost of the farmer's labour at the minimum rate per hour
cost of the farmer's own capital at the minimum interest rate
cost of the operator's management at the minimum rate

To include the last four items in the operating statement as expense items is a departure from usual practice. Traditionally, returns to land, capital, labour and management have been called net income and viewed as a residual which the farmer considers to be his income. In fact, except for management return beyond an established level, these returns are costs to the farm operation and should be entered into the farm accounts as such.

All of the expense items, including a return to the operator's own labour and capital, would therefore be subtracted from gross farm sales. If the management return left over was greater than the minimum level established, the farm would be viable in that minimum acceptable rates of return were obtained for labour, management and capital after all other expenses were paid. If the management return were less than this minimum, the farm would be non-viable.

As an example of how the viability of a farm would be determined, Figure 1 shows an annual balance sheet and operating statement for a farm business. It is assumed that the farm has 150 acres of land; buildings and machinery valued at $40,000; and an annual gross income of $20,000.

As shown in the balance sheet, half of the $40,000 invested in machinery and buildings is borrowed capital; half of this amount is owned by the farmer – his equity. The statement of income and expenses shows a gross income of $20,000, and total cash expenses of $13,200, including land rent at market rates, hired labour, interest on the $20,000 borrowed, and other cash expenses of $5,800.

Assuming that minimum acceptable rates of return to resources are established at $1.80 per hour for labour, 7% per year for capital and $1,000 per year for management, the returns to the farmer's own labour, capital and management amount to $6,000, leaving a net profit of $800. This farm is viable, therefore, in that minimum acceptable rates of return can be paid to labour and capital after accounting for all other cash expenses. A management return of $1,800 is left over compared with the $1,000 minimum. If the management return was below $1,000 then the farm would be considered non-viable.

Determining the viability of the farm

To develop a basis for assessing the viability of a farm enterprise the following procedure is suggested. Periodically (say annually) a set of accounts or budgets for an economic farm unit would be constructed for each farm type. These accounts would use current prices for farm products at the farm gate and current costs for farm inputs. The production methods selected would be those that are being employed by reasonably good operators in the province; livestock production and crop yields would be set at levels that reasonably good operators could be expected to achieve. The size of farm and quantity of products sold that would yield minimum rates of return to labour, management and capital could then be obtained. The amounts of labour and capital required to obtain this level of output would also be determined. This process would be repeated for various production practices and crop and livestock yields, and for different regions in the province.

If, to obtain minimum acceptable rates of return to resources, the production methods required are so advanced and the yields required are so high that reasonably good managers cannot be expected to achieve them, then it is clear that the industry is non-viable at current prices and costs. For example, if 15,000 pounds of milk sold per cow are required to obtain minimum rates of return to resources in dairy farming, and if this production level is beyond the reach of most good dairymen, then the dairy industry would be non-viable. This would mean that adjustments in prices and costs must take place so the industry will become viable at reasonable production levels. If minimum resource returns can be achieved at reasonable production levels, then the industry in general could be considered viable. Operators on non-viable farms could then be helped by management assistance to reach production levels required for viability, or encouraged to leave the industry if their opportunities were better elsewhere.

The economic farm units can also be used to assess the viability of any one farm. For instance, it might be established that 10,000 pounds of milk per cow are required for a viable dairy farm. If a farmer with only 8,000 pounds per cow finds that he is non-viable, then he can be encouraged to improve his milk production per cow to the necessary levels. He can, of course, compensate for low levels of milk production by raising crop yields.

Farms can be non-viable because of the costs of their inputs as well as their production levels. If it is established that cash grain farmers are paying market rents of $30 per acre, this value would be used in the economic farm units. If a farmer has paid such a high price for his land that he must charge, for example, $50 per acre to his operation to cover the cost of owning this land, he can compensate for his high land cost by switching to higher value crops or alter his land cost by moving to lower value land.

Economic farm units must be used, then, to assess the viability of individual farms and of the industry as a whole. They can be used to indicate why individual farms are non-viable and what can be done to make improvements in these operations.

The viable farmer

The viable farmer is one who can maintain at least a minimum level of annual spending for his family in terms of housing, clothes, food, recreation, medical expenditures and other necessities.

Assuming that part-time farmers are to be included in the definition, the farm operator has six possible sources of income for family living: his labour used in farming, his capital invested in the farm enterprise, his management return, his labour used off the farm, and capital invested outside the farm enterprise (including investments in farm land). For full-time farmers with no off-farm income, all income would be derived from labour, management and capital employed in farming.

In determining whether or not the farm operator is viable, his income from all sources must be calculated and added up. Once a farmer's income from all sources is obtained, his viability can be assessed in that his income will be above or below a specified minimum annual income level. Based on our discussion of minimum income levels in the first section of this report, let us suppose that in 1969 the minimum income level for a farm family was established at $4,000. Again, this minimum level must be continually changed to take into account changes in the cost of family living.

The farmer as a landowner

In discussing the viable farm it was stated that the most desirable way of charging the cost of land to the farm business is to charge a market rental rate for this land, whether the farmer owns it or not. Since most farmers in Ontario have a capital investment in land and very few farmers rent all their land, the returns from renting land to the business will in most cases go to the farmer himself. The farmer will have to bear the costs involved in owning and mantaining the land he rents to himself as the farm operator. By charging market rents for land, the costs and returns involved in landholding are simply transferred from the farm business to the farmer. Land prices, therefore, do not affect the viability of the farm since land ownership is regarded as a capital investment outside the farm enterprise; land prices will, however, affect the viability of the farmer if he chooses to own all or part of the land he farms.

Accounts for the farmer

Just as a detailed set of accounts is required to determine the viability of the farm business, a similar set of accounts is needed to assess the viability of an individual farmer. This set of accounts includes a balance sheet and a statement of the farmer's income and expenses.

Figure 2 illustrates how the viability of the farmer can be determined. This example shows a typical farmer operating the viable farm discussed previously. It is assumed that he has purchased the 150 acres of land used in the farm operation at a cost of $400 per acre, and that he has a mortgage of $40,000 outstanding on this land. His assets, including land, buildings, machinery and other investments, are $110,000. His liabilities are $20,000 on buildings and machinery and $40,000 on land, and his net worth is $50,000.

The farmer's income from farm labour, capital invested in the farm business, management of the farm, rental of land to the farm business and off-farm services is a total of $10,800. Because he owns the land, however, he has annual expenses on his land of $4,800, including taxes, land improvements and interest on his mortgage. His total personal income from farming and from non-farm services is $6,000. If he has a $3,000 income tax exemption and an income tax rate of 20%, then his income available for family living after taxes is $5,400. Using the minimum standard assumed earlier, the farmer in our example would be viable.

FIGURE 2

A sample set of accounts for the farmer

Farmer's balance sheet

Assets		Liabilities	
Land, 150 acres @ $400	$60,000	Loan on buildings and machinery	$20,000
Buildings and machinery	40,000	Land mortgage	40,000
Other assets (cash in bank, investments, etc.)	10,000	Total liabilities	60,000
		Net worth	50,000
Total assets	$110,000		$110,000

Farmer's income statement

Income		
Farm labour	3,600	
Return on capital invested in farm business (7% of $20,000)	1,400	
Return from management of farm	1,800	
Return from rental of land to farm business (150 acres @ $20 per acre)	3,000	
Other income earned off the farm	1,000	
Total income		$10,800
Expenses		
Land taxes	900	
Annual cost of land improvements, including interest, repairs on fencing, tile drainage, etc.	1,100	
Interest on land mortgage, 7% of $40,000	2,800	
		4,800
Total personal income		$ 6,000

Forced saving

If a farmer's income is above the minimum level, then this extra amount is available for increased spending on consumption or for savings. If he is required to invest a portion of his annual income in land or in the farm business, then his income may be reduced to below the minimum level. For example, the farmer in our illustration had an annual income from all sources of $6,000. If he has a $3,000 income tax exemption and a tax rate of 20%, his income remaining after taxes is $5,400. The difference between this $5,400 and the $4,000 minimum is what he has available for savings or increased spending on consumption. The farmer can therefore invest a maximum of $1,400 in his farm business annually and still remain viable. If, however, he is forced to save more than this through mortgage principal payments or repayment of other debts, his spendable income is reduced below the minimum level.

This forced saving is the reason why it has often been said that farmers 'live poor and die rich'. Any financial arrangement that forces the farmer in our example to invest more than $1,400 per year in his farm will make him non-viable. If we are to ensure that farmers will remain viable in the face of rising capital investments in farming and in farm land, then financing arrangements for farms must be such that farmers are not forced to save excessive amounts out of their current incomes. These problems are discussed more fully in the Capital and Land sections of this report.

Viable farms and viable farmers

On the basis of the above definitions, it is clear that the viability of the farm depends largely on the competence of the operator who manages it, the prices of products and costs of inputs, and the production practices used. The viability of the farmer himself depends on whether or not his farm is large enough to give him an adequate income from his labour, management and capital employed. It is easy to see that a small farm may be well-managed with high yields and high levels of livestock production, and therefore viable. This farm, however, may not use up enough of the farm operator's labour, management and capital to make the operator himself viable. On the other hand, a larger, poorly-managed farm may be non-viable but the operator of this farm may be viable because of the large amounts of his own labour and capital employed. Thus, it is entirely possible to have a non-viable farmer operating a viable enterprise or a viable farmer operating a non-viable farm enterprise. If our objective is to have as many viable farms as possible and as many viable farmers as possible, these two extremes present entirely different problems.

The need for an improved farm accounting system

If the viability of an individual farm, an individual farmer, or an industry, is to be assessed, it is absolutely essential to have a simple and accurate system for recording the investments, income and expenses on farms, and the incomes of farmers. Many farmers are still at the stage where a shoebox in a drawer is their only system for keeping books; accurate calculations of the type described in the foregoing pages would appear impossible. Moreover, if the viability of every farm and farmer in Ontario is to be assessed, the large volume of calculations required is almost beyond comprehension. Even good conventional systems of keeping farm records are entirely inadequate.

Fortunately, it is possible to do this kind of calculation for every farmer in Ontario. Within a few months the Canadian Farm Management Data System (CANFARM) should be available to Ontario farmers. This system is the ultimate in simplicity, and it is detailed enough to make the kinds of calculation necessary to assess the viability of farms and farmers. It is completely computerized, so that very large numbers of calculations can be made at low cost. If the objectives of minimum returns to resources on farms, and adequate incomes for farmers are to be taken seriously, then the essential first step in working toward these objectives is to measure accurately present resource returns and incomes. The only way to do this is to encourage every farmer in Ontario to keep an accurate set of accounts such as that obtained through the CANFARM system. This must be made a first priority in policy if we are to begin to solve the income problems of Ontario farmers.

Models of economic units

In its study of the farm income situation in Ontario, the Committee was most concerned with the possibility that to be viable a farm would have to be exceedingly large in size. It instructed its researchers to develop synthetic farms or farm models which would give it an idea of the resources required to achieve a specified labour and capital return to the farm operator.

In these models of economic farm units, farms of different types were budgeted on the basis of data which accurately reflect technology, input costs and output price conditions in Ontario. The costs of inputs and prices for products used were those typical of Ontario agriculture in 1966, the most recent information available to the Committee.

Minimum rates of return to resources were arbitrarily established by the Committee at $1.80 per hour for labour for full-time workers who worked a maximum of 2,500 hours per year, 7% per year on invested capital, and $1,000 per year for the management of the farm. In each case the farm operator was assumed to be a capable manager using some of the better production practices currently available. The model farms were then developed to represent the minimum amounts of land, labour, capital and livestock necessary to obtain an annual labour return of $4,500 per full-time worker (2,500 hours at $1.80 per hour), a return on investment capital of 7%, and a return to management of $1,000 per year. These farms had one or two full-time workers including the owner-operator.

Information for developing these model farms was obtained from published research studies, extension bulletins, and university and extension workers. In addition, a number of farm interviews were conducted to obtain further information and to ensure that the data used accurately reflected the conditions under which Ontario farmers operate.

Model farms were developed for six major farm types – dairy, swine, beef cow-calf, beef feedlot, cash grains, and poultry. Each of these farms was specialized in that it had only one livestock enterprise. The livestock and poultry farms were constructed so that as much as possible of the feed requirements were provided on the farm through crop production. The minimum amounts of land, labour and capital required to obtain $4,500 per man for labour, 7% on invested capital and $1,000 to management were determined. These models were analyzed to determine how the amounts of resources required would vary with changes in crop yields, livestock production levels, land costs, and prices for products. The manner in which each of the six model farms was constructed and the results obtained are outlined below.

The dairy farm

The model dairy farm was constructed to employ two full-time workers: the owner and one hired man. Part-time hired labour was provided in the summer months. Hay, corn silage, pasture and grain were included in the crop rotation. The large amount of pasture used (1.5 acres per cow) makes this farm typical of central or eastern Ontario, or for that matter of any farm in the province where a large proportion of total acreage is suitable only for pasture. Corn silage was harvested by a custom operator, and hay and grain were harvested with the operator's own equipment. Crop yields obtained were 3 tons per acre for hay, 55 bushels per acre for grain, and 15 tons per acre for corn silage.

A milk production level of 11,000 pounds per cow was selected for the dairy herd. Housing costs were based on a free-stall barn with a milking parlour, bulk milk handling and tractor manure handling. Feed storage was provided with an upright silo and unloader for silage, a pole barn for hay storage and steel bins for grain and supplement storage.

An average price of $5.25 per cwt. for Grade 'A' milk was used. Land values were placed at $350 per acre for corn, $250 per acre for hay and grain, and $150 per acre for pasture.

Under these conditions it was found that a dairy farm with 61 cows and their replacements and 263 acres of crop and pasture land would yield annual returns of $4,500 to the operator's labour, 7% to his capital investment, and $1,000 to his management. Annual milk production from the farm would be about 680,000 pounds, with milk and livestock sales of $40,626 per year.

The beef cow farm

The model beef cow farm was intended to represent a full-time farm in the eastern or northern areas of the province where rough land can be obtained very cheaply. The farm was basically a one-man operation with summer help for haymaking. The crop rotation included hay land, hay-pasture land and rough pasture. Two cuts per year were taken from the hay land and one cut per year from hay-pasture land. Oats were grown as a cover for seeding down hay mixtures. The average yield per acre from hay and hay-pasture was 2.3 tons. All hay was harvested with a baler, bale-thrower and wagons owned by the farmer.

A simple, inexpensive loose-housing barn was provided for winter shelter and calving. The livestock programme was developed for early calving so that calves could be sold in the fall at the heaviest possible weights. Cows calved in January or February. Steer calves at 500 pounds and heifers at 450 pounds were sold off pasture the following fall. A calf crop of 95% was assumed. The equivalent of 13% of the cow herd was culled each year, so the productive life of an average cow in the herd would be between 7 and 8 years.

The selling prices were 30¢ for 500 pound steer calves, 27½¢ for heifers, and 18¢ per pound for cull cows. At the culling rate used, these prices mean that each cow produces $137 worth of product each year.

Land costs used were $75 per acre for hay and hay pasture land and $25 per acre for rough pasture which is about 80% cleared.

The same minimum rates of return to labour, capital and management required a farm with 774 acres, including 261 acres of hay-pasture land and 483 acres of rough pasture, and a herd of 172 cows. Value of product sold from the farm was $25,800 per year.

The beef feedlot farm

The model beef feedlot farm was developed as a specialized operation that buys feeder calves and produces finished animals with home-produced feed.

The labour available on the farm was one full-time operator and part-time help for harvesting crops. The crop rotation was corn silage and grain corn, so the location of the farm would be restricted to the sourthern areas of Ontario where land and climate permit continuous corn production. The feedlot ration was developed to make maximum use of corn silage, which was accepted as the cheapest form of roughage available for growing and fattening beef cattle in this area. Corn silage and high moisture grain corn were harvested with the operator's own equipment and stored in upright concrete silos. Crop yields were 15 tons per acre for silage and 85 bushels per acre for grain corn.

The livestock programme selected was the purchase of 400 pound steer calves in the fall and feeding in drylot to 1,000 pound choice slaughter steers in about nine months. Calves of this type were purchased in October or November and sold the following summer. The amount of feed required to carry an animal from 400 to 1,000 pounds in this programme was 4 tons of silage, 35 bushels of high moisture grain corn, 42 pounds of urea, 170 pounds of 44% supplement with a small amount of purchased hay for starting the calves on feed. This ration produced an average rate of gain of about 2.2 pounds per day. Cattle were fed in fence-line bunks with a self-unloading wagon.

Involved in the model farm was the purchase of steer calves at 30¢ per pound and the sale of 1,000 pound finished steers at 28¢ per pound. On this basis, the difference between the purchase and sale value of an animal was about $160. Land costs were set at $350 per acre for both silage and grain corn production.

The farm size required to return the specified rates to labour, management and capital was 128 acres, including 50 acres of silage and 78 acres of grain corn; 191 steers were fed per year with the production of 114,600 pounds of beef on the farm, representing $30,560 in value of beef produced.

The swine farm

The model swine farm was developed to represent a farm on which sows were kept and the weanlings finished to market weight. Although both weanling pig and hog feeding enterprises are common in the province, this form of enterprise was considered typical of the kind of operation run by a large number of farmers.

The amount of labour available was one full-time operator with part-time help available at harvest time.

The only crop grown on the farm was grain corn. This restricted the location of the farm to areas where corn can be grown continuously. The corn was harvested with a picker-sheller and stored as high moisture corn in a sealed upright concrete silo. Corn was unloaded from this silo with an automatic unloader and ground and mixed daily with an electric mill to produce complete hog feed. The only purchased feed was vitamin, mineral and protein supplement.

The housing system selected included a dry-sow barn with concrete floors and individual feeding stalls, a farrowing and nursing barn with accommodation for one in every four sows in the herd, and a finishing barn with partially slotted floors and a liquid manure storage tank. Feeding was by hand and directly on the floor.

Costs and returns were calculated for a swine herd of good quality commercial breeding stock. The production level was 16 pigs sold per sow per year, with 60% Grade A hogs, and 40% B hogs. Each sow farrowed two litters per year and market hogs were sold at five to six months of age. The market price per hundred-weight of Grade A dressed pork was $30; this meant a sale price per hog of $45.60, assuming 60% A's and 40% B's.

Land values were estimated at $350 per acre for corn production.

The size of swine farm required to obtain $4,500 per year to the farmer's labour, 7% to his capital and $1,000 to his management was 49 sows selling 790 market hogs per year, and 95 acres of grain corn. Value of swine produced on the farm was $36,710.

The cash grain farm

The model cash grain farm represented a southwestern Ontario situation where climate and soil were suited to the production of grain corn, winter wheat, and soya beans. Other crops including white beans and processing tomatoes were considered when this farm was developed, but a rotation of corn, wheat and soya beans seemed most typical of the crops grown by farmers in this area of the province.

The farm was developed so it would be run by one full-time operator with seasonal help available for planting and harvesting. The amounts of each crop grown were 50% of the total acreage in corn, 25% in wheat and 25% in soya beans. All machinery including a corn picker and pull-type combine was owned by the operator. Corn was stored and dried in cribs for sale in the spring, and wheat and soya beans were stored in steel bins.

The yields of the three crops were estimated at 92 bushels per acre for grain corn, 35 bushels per acre for soya beans and 48 bushels per acre for wheat. Land values were estimated at $400 per acre.

The size of cash grain farm required to make minimum resource returns to the operator was 284 acres, including 142 acres of grain corn, 71 acres of soyabeans and 71 acres of wheat. Grain sales from the farm amounted to $29,592 per year.

The egg farm

The egg farm was developed as an operation with laying hen flocks and grain corn grown for feed. Although many poultry flocks in the province are completely specialized with no crops at all, a cropping programme was included on this farm for two reasons: first, the model could be compared more easily with other farms on which crops were grown, and second, the problem of waste disposal means that some land must be available for spreading manure. Land for manure disposal was therefore included at a rate of ten acres per 1,000 birds.

The farm was developed to employ two full-time workers including the farm operator. Grain corn was grown at a yield of 92 bushels per acre, harvested with a picker, stored in cribs, and sold in the spring as feed grain. The laying hen flock was fed entirely with commercially-mixed feed. Home-mixing a feed for laying hens is not popular at present, but does offer a possibility for savings in feed costs if the manager is skilful enough to mix adequate rations. In any case, the farmer's own corn can be mixed into his ration at a local feed mill.

Pullets were purchased at 20 weeks of age and kept for a 12-month laying period. Feed conversion was four pounds of feed per dozen eggs and a hen's production was 240 eggs during the 12-month period.

The housing system selected was a single-storey windowless building with three-bird cages, a motorized feed cart and a liquid holding tank for manure. Feed was stored in bulk bins.

A price of 34¢ per dozen was used for eggs, and $1.30 per bushel for corn sold. Land was valued at $400 per acre.

To make the minimum returns of $4,500 to the operator's labour, 7% to his capital and $1,000 to his management required a laying flock of 11,200 hens selling 224,000 dozen eggs per year, and 112 acres of grain corn. Egg sales from the farm amounted to $76,160. Grain sales were $13,340, yielding total sales of $89,500.

Economic farm units

The capital investment, value of product produced, size of farm and level of production required to obtain $1.80 per hour to the farmer's labour ($4,500 per year), 7% to his capital and $1,000 per year to his management for each farm type are summarized in Figures 3 and 4.

Although there are certainly many farms in Ontario today larger than the ones described here, these model economic units are very much larger than average farms in the province. The model farms use much more capital than the average, produce much more product, and in most cases have larger acreages. Capital investments ranged from $78,000 for the swine farm to $136,000 for the cash grain farm. The value of product ranged from $25,800 for the cow-calf farm to $89,500 for the laying hen farm. On the basis of these models, if a full-time farm business were to yield the minimum acceptable returns to resources specified above with 1966 costs and prices, the business would have to sell at least $25,000 worth of product and have a capital investment of at least $78,000. For farm types such as cash grains where large acreages of land are required, capital investments of $125,000 to $135,000 are required if the land is to be purchased and not leased.

These models give a good indication of how large the farm business must be if minimum acceptable returns to labour, capital and management are to be obtained under conditions of 1966 prices and input costs. Since costs and prices have changed considerably since 1966, the models are already out of date. If this analysis were repeated in 1969, the farms might have to be a little larger to account for increases in costs. The models must be reviewed and updated every year if an accurate picture of the economic unit is to be obtained.

Unfortunately, the Committee was not able to develop model farms reflecting more recent Ontario conditions because the present system for collecting data is so poor that figures for most of the information required to develop these farms were not available beyond 1966. The Committee deplores the situation that presently exists where Census information collected in June of 1966, for example, was not available to the researchers till May of 1968. Data collection, storage and retrieval techniques which do not make information immediately available for research purposes are of very little value. This Committee considers this situation intolerable. A data centre for the Ontario food industry must be developed with all possible haste.

The viable farm of today may very well be the non-viable farm of tomorrow because of rapid changes in costs, prices and production practices. Anything that can be done to slow down the increases in costs of farm inputs, or to obtain higher, more stable prices for products, or to adapt to new technology will be of tremendous value in slowing down the rate at which farm size and levels of production must be expanded. Possibilities for controlling cost increases and obtaining higher prices are dealt with in the Capital and Marketing sections of this report.

The challenge to farmers who wish to remain in farming is that they must expand their operations and adjust to changing conditions if they are to receive adequate rewards for their efforts. Those who do not will eventually have to seek a living elsewhere.

Non-viable industries

Farmers have a right to expect at least acceptable minimum returns to their resources if they manage their farms with a reasonable degree of competence. If, however, these acceptable returns can only be achieved with production methods so advanced and yields so high that they are beyond the reach of even good farm managers, then the whole industry must be considered non-viable. The models of economic farm units provide two good examples of this. One is the industrial milk operation, the other is the beef cow-calf operation.

Industrial milk production

The Committee found that with milk prices of less than $5.00 per cwt. the size of dairy farms required to make the specified returns to resources was so large that two men should not be expected to do all of the work. Many Ontario industrial milk producers are receiving prices considerably lower than this even when government subsidies are included. Unless industrial milk shippers work more than 2,500 hours per year – and this is not reasonable – or have production levels of more than 11,000 pounds per cow, it will be very difficult to earn adequate resource returns under conditions of current prices and costs, even with the present government subsidy payments.

FIGURE 3

MINIMUM FARM SIZE
AND RESOURCE
REQUIREMENTS FOR
$ 5,500 RETURN
TO OPERATOR LABOUR
AND MANAGEMENT
AND 7% RETURN
TO INVESTED CAPITAL

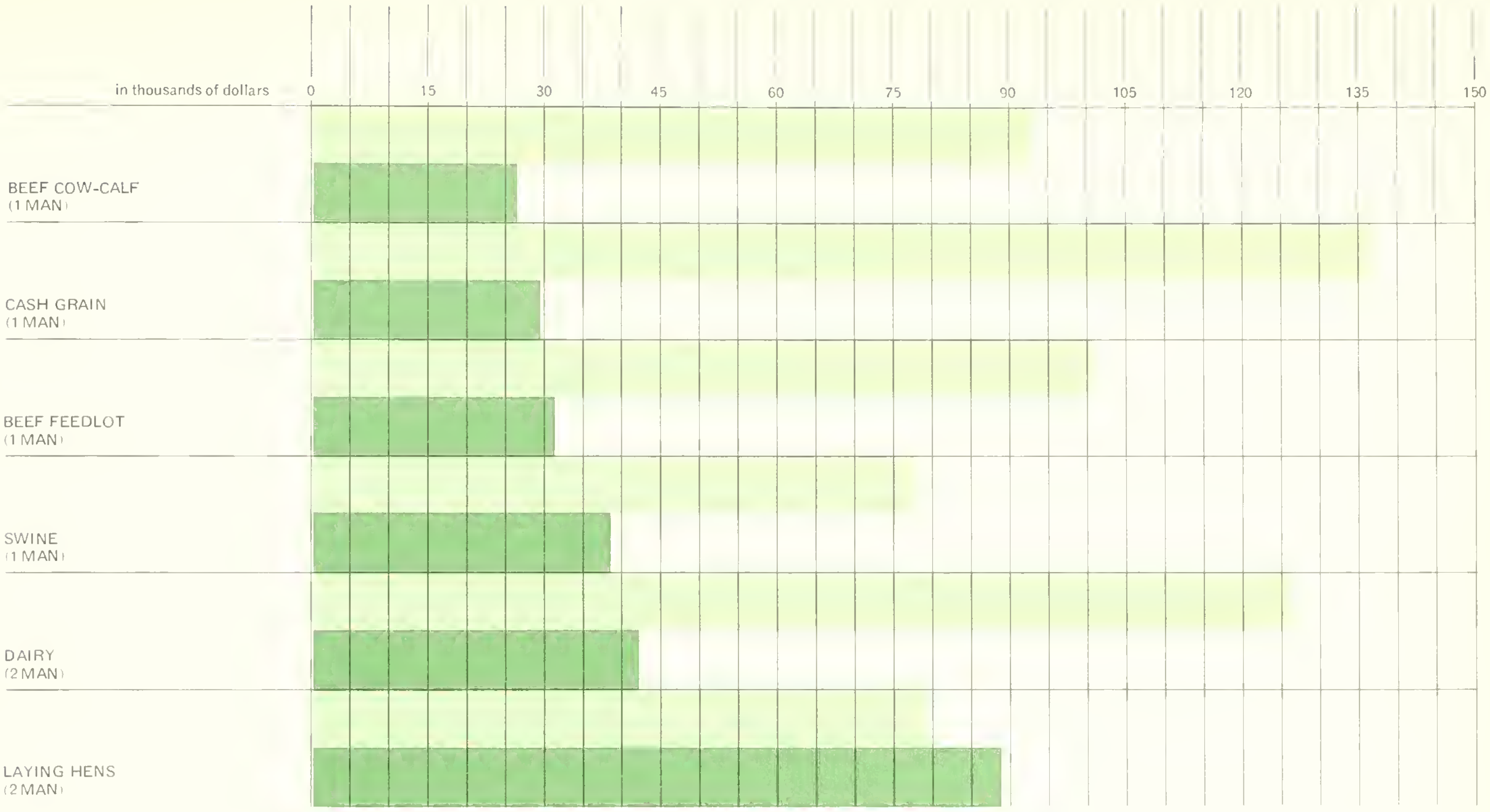


FIGURE 4

MINIMUM FARM SIZE
AND RESOURCE
REQUIREMENTS FOR
$ 5,500 RETURN
TO OPERATOR LABOUR
AND MANAGEMENT
AND 7% RETURN
TO INVESTED CAPITAL

FARM TYPE	NO. OF FULL-TIME WORKERS	LIVESTOCK ENTERPRISE	CROP ENTERPRISE	UNITS OF OUTPUT SOLD	VALUE OF FARM PRODUCTION ($)	CAPITAL INVESTMENTS ($)
BEEF COW-CALF	1	172 COWS	483 AC. ROUGH PASTURE	90,000 LBS. BEEF	25,800	91,800
			261 AC. HAY PASTURE LAND			
CASH GRAIN CROPS	1	—	142 AC. GRAIN CORN	13,100 BU. CORN	29,592	136,000
			71 AC. SOYBEANS	2,470 BU. SOYBEANS		
			71 AC. WHEAT	3,400 BU. WHEAT		
BEEF FEEDLOT	1	191 STEERS FED PER YEAR	50 AC. CORN SILAGE	114,600 LBS. BEEF	30,560	100,192
			78 AC. GRAIN CORN			
CONVENTIONAL SWINE	1	49 SOWS	95 AC. GRAIN CORN	790 MARKET HOGS	36,710	78,245
DAIRY	2	61 COWS AND REPLACEMENTS	81 AC. HAY	680,200 LBS. MILK	40,626	125,693
			16 AC. CORN SILAGE			
			91 AC. PASTURE			
			75 AC. SMALL GRAINS			
LAYING HENS	2	11,200 HENS	112 AC. CORN SOLD AS GRAIN	224,000 DOZ. EGGS	89,500	79,100
				10,300 BU. CORN		

Beef cow-calf production

The beef cow-calf farm is viable with 172 cows, 744 acres of land, a 95% calf crop and steer calves that weigh 500 pounds when sold. Any beef cow-calf farm that is smaller or less productive than this would be non-viable under 1966 costs and prices. In its contact with full-time beef cow-calf farmers in the province and elsewhere, this Committee has found that not even the best managers are able to obtain 95% calf crops and 500-pound weaning weights, and put up all of the winter feed for 172 cows with only part-time hired help. Under current conditions, therefore, it is not reasonable to expect beef cow-calf farmers to obtain minimum resource returns even from well-managed farms.

This Committee has not been able to predict accurately what price would be required to obtain acceptable returns to beef cow-calf farmers. If a 90% calf crop, 500-pound steer calves and 450-pound heifer calves at weaning, and 100 cows per full time operator are considered reasonable in terms of the capabilities of most good managers on beef-cow farms, a reasonable estimate is that selling prices as high as 42¢ per pound for steer calves and 39½¢ per pound for heifers may be required to obtain $4,500 for labour, 7% to capital and $1,000 to management for cow-calf farmers. These prices would produce livestock sales of about $210 per cow compared with $150 per cow produced on the model beef-cow farm. If weaning weights of 500 pounds for steers and 450 pounds for heifers cannot reasonably be achieved, then the prices required would be even higher.

Farm size in Ontario

How big will farms eventually get? How big must they be to produce food at reasonable cost to consumers? Will farms become so large that they can no longer be owned and operated by individual farmers? Will large corporations take them over?

Farmers and everyone else involved in agriculture have been asking these questions for many years. Many attempts have been made to provide the answers. The answers are complicated. They involve not only the economic problems of how to produce food at reasonable cost, and how to get farmers reasonable incomes, but also the social problems of the farm community. Indeed, one of the reasons this Committee exists is that the problem of ever increasing farm size poses a threat to the entire organization of agriculture.

We cannot say that a farm of one particular size is clearly superior to farms of any other size. From where we stand in 1969, it is impossible to gaze into a crystal ball to predict accurately the future of agriculture.

What can be done, however, is to understand why farms are getting larger, and how changes in the size of farms affect Ontario farmers. The important issues can be raised, and guidelines provided for policies. Ontario farmers should benefit from change.

A definition of size

In any discussion of farm size, different people define size in different ways. For example, the size of a dairy farm could be described as volume of milk produced, number of acres, capital investment, gross sales, number of cows, or number of workers.

Another problem in using any definition of size is that the proportions of different inputs used by farmers change over time. For instance, if a particular farm had one full-time operator and $50,000 in capital ten years ago, the same one-man farm might need $100,000 today to make a comparable income. The size of this farm has doubled in capital investment, but it has not grown at all in terms of the labour it uses. Thus some changes in farm size are really only changes in the proportions in which capital and labour are combined. The type of adjustment in which labour and capital are increased in the same proportions rarely occurs in farming.

For our purposes, it is most useful to consider size as relating to the labour input, that is, the number of full-time workers on the farm. It must be kept in mind that the amounts of other resources combined with this labour will change rapidly in the future; the amounts of land and capital employed on one-man farms ten years from now will be quite different from the amounts of these inputs employed today.

Farm size and production costs

The efficiency of farms of different sizes is usually compared in terms of relative costs of production, that is, the average total cost of producing a unit of product. For example, if a dairy farmer with 20 cows can produce milk at a total cost of $5.00 per hundredweight and a farmer with 40 cows can produce milk at a total cost of $4.00 per hundredweight, then the 40-cow farmer would have an advantage in terms of his costs of production.

In theory at least, farms that have the lowest costs of production will have an advantage over farms that have higher costs, in that they can survive in the face of lower prices and are better able to compete. If farms with low production costs produce large quantities of product at prices so low that high-cost farms cannot make a profit, then prices for farm products will be driven down to a point where only the low-cost farms can survive and the high-cost farms will eventually have to leave the industry. The sizes of farms, then, will move toward the levels that allow products to be produced at least cost.

This simple explanation begs many questions. In Ontario today, farms of many different sizes compete side by side and produce incomes for their operators high enough to allow them to stay in business. Farms have not been driven toward one 'best' size above and below which no one can stay in business. Lower production costs are not the only reason why farm size has tended to increase. Nevertheless costs do have an important influence. If we are concerned about how large farms will eventually have to be in order to stay in agriculture, we must deal with the question of whether farms with many workers can produce food at lower cost than farms with only one or two workers.

Basically, two kinds of pressure can cause farms to become bigger or smaller. One has to do with size relationships that are internal to the farm. In other words, the things that influence the size of farms inside the farm gate are such items as machinery use, labour use, and crop and livestock yields. The other set of factors influencing farm size has to do with external relationships, for example the marketing of products and the purchase of inputs, which are not directly controlled by the farmer himself.

Size relationships within the farm

Suppose a dairy farmer has built a barn for 40 cows. As the size of his dairy herd is increased up to this level, his cost of producing a hundred pounds of milk will steadily decrease, since the barn is being utilized more fully. If he increases the herd beyond the 40-cow level, the extra cows will not be properly housed, and his costs of production may be higher for many reasons, such as feed wastage, cow discomfort and improper supervision. His costs of production are lowest, therefore, with 40 cows in a 40-cow barn.

In the short run this farmer can achieve minimum production costs by using his facilities more effectively. In the long run he may decide to build more barn space to house a larger herd. Because his barn space is no longer limiting (he has decided to build more) he is presented with a different problem. Will a herd of 50, 60, 70 or 100 cows enable him to produce milk at lowest per-unit cost?

The problem of utilizing available facilities most effectively is distinct from the problem of whether or not to add more facilities, although both kinds of adjustment have an effect on production costs.

In the long run almost all farm resources can be varied, including barn space, land, machinery and hired labour. As farmers add more and more capital, land and labour to their operations, they face two problems. One has to do with lumpy inputs and the other with management.

Lumpy inputs

Farmers cannot always purchase the inputs they use in the exact quantities required. Some farm inputs, such as fertilizer and electricity, are available in such small quantities that they can always be used up. Lumpy inputs, such as tractors and similar large machines, may not be used to capacity. Using all of these lumpy inputs to capacity is almost impossible, even for very large farms. For instance, it would be impossible to buy a set of machinery for a 300-acre farm so that each machine is used exactly to its capacity.

The Committee is of the opinion that the attempt to achieve full use of lumpy inputs is not in itself a sufficient justification for increasing farm size – a common practice among many Ontario farmers. There is no need for any one farm to be large enough to justify a large expensive machine if it is possible to custom-hire or share it on reasonable terms.

The rapid increase in custom-hiring and shared use of machines in some areas of Ontario is evidence of this fact. By custom hiring or sharing machinery, small farmers can achieve the same production costs as larger farmers. This may explain the persistence of many small farmers in Ontario agriculture even when cost-of-production studies indicate that their farms are an uneconomical size. Policies such as Farm Machinery Syndicate Loans that encourage shared use of large machines can be important in helping small farms match larger farms in production efficiency.

Management and uncertainty

Farm managers perform two tasks: co-ordination and supervision. Supervision involves seeing that the day-to-day operations of the farm are carried out correctly. Co-ordination involves the broader aspects of marketing, purchasing and carrying out adjustments in uncertain and changing conditions. In a business such as farming where there is a lot of uncertainty and conditions change rapidly, management will be a limiting factor in the size of the operation, because co-ordination becomes more and more difficult with increasing farm size.

The most frequent causes for this increasing difficulty of co-ordination are as follows:

1. The need to make many separate decisions.

Soil types and dairy cows, for instance, must be handled individually and differently. Increasing farm size requires a greater number of these decisions.

2. Increasing distances.

As farm size increases, farming activities are often widely separated. Distance may make the co-ordination problem greater. This can be overcome by better communications (the 2-way radio for example) and by concentrating production in feedlots and confinement buildings.

3. Disease.

Farm operators must be continually on the lookout for signs of disease developing in their poultry flocks and livestock herds. Health and sanitation problems and inadequate ventilation are known to have been the cause of difficulty and in some cases bankruptcy among large farm operators.

Lack of predictability

Erratic markets, weather, and similar factors contribute to the difficulty of co-ordination on larger farms. Forward pricing programmes, for instance, would increase predictability. We might expect larger farms and increased output if these programmes were implemented.

Despite the fact that farms of different sizes exist, problems of uncertainty and co-ordination must eventually lead to a maximum feasible size of farm for any one farmer. Whether or not the limit has been reached even by very large farms will be continually open to question.

Size relationships outside the farm

The discussion so far has dealt with cost and size relationships arising from the management of a farm or from other technical factors within the farm itself. The farm has been assumed to be an independent unit with a certain set of prices and costs, and with no connection to other parts of the food industry that provide its raw materials and process its products.

The food industry is large and complex and farming is only a small part of it. In the price of food products to the consumer, only about 9% is value added by the farmer. Farm supply firms take 18% and food processing and distribution firms take 60%, as shown in Figure 5.

The Committee is convinced that costs of supplying farms with inputs and costs of processing and retailing farm products have an influence on the size of farms.

There are two possible areas where farm production costs can be influenced by farm suppliers and processors:

1. prices paid for farm supplies or prices received for products.
2. vertical integration.

Costs of inputs and prices for products

As farm size increases, it may be possible for the farm operator to purchase supplies at more favourable prices. Some common examples of this are volume discounts on large purchases of fertilizer, feed and farm machinery, and lower-cost credit arrangements. Product prices can be influenced in a variety of ways, such as premiums for larger deliveries, more continuous supply, or the ability to grade products better because of larger volumes.

The effects of these factors on farm size may be dramatic. For instance, it has been found recently that, with the very large egg grading machines controlled by some supermarket chains, the collection of eggs from flocks of less than 5,000 hens is uneconomical from a transportation and grading standpoint. In future, flocks will have to be at least this size if eggs are to be marketed through supermarket outlets.

In this case the marketing system imposes an effective minimum on farm size. In other areas the advantages of size are less clear-cut. They may have more to do with the ability of the operator to buy and sell wisely than with the actual volume of product he produces.

Vertical integration

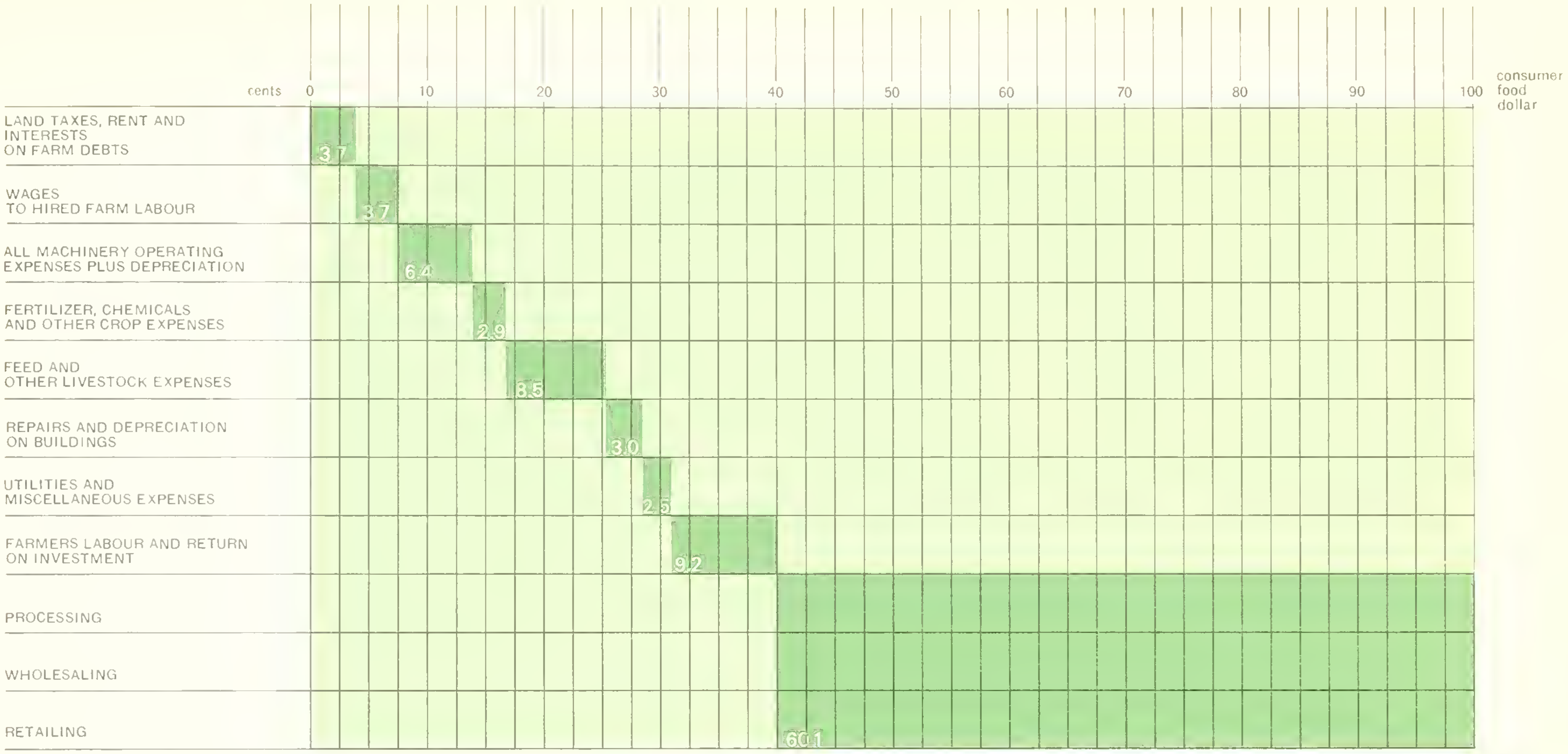
Vertical integration can be broadly defined as co-ordination of several successive stages in the food production process when these stages could be otherwise operated independently. Examples of this process are the combination of feed manufacturing with livestock production and the combination of vegetable growing with vegetable processing. One type of vertical integration practised successfully by farmers is the production of crops for feed on livestock farms.

It is important to realize that vertical integration does not mean complete ownership of all facilities in the successive production stages. The integrator simply needs control or influence

FIGURE 5

DISTRIBUTION
OF
THE CONSUMER
FOOD DOLLAR
FROM
FARM TO RETAILER

ONTARIO 1966



over these stages, whether he owns them or not.

The effects of integration on the production costs and size of farm units are of far more importance than the purchasing of inputs or the selling of products. Integration has several advantages. It can result in a higher value of production through improved product quality and continuous, scheduled supply. It can result in substantial improvements in the overall operation of the food production and marketing system. This is desirable if we are to be concerned with providing food for consumers at reasonable cost. Integration can also reduce uncertainty in production by bringing more functions under the control of a single manager.

Although there is no doubt that integration is desirable from the point of view of efficiency, it may have far-reaching implications for farm size. If farming must be integrated with the processing of a certain product, ownership or some other form of control over very large farms may be necessary. For instance, the integration of pea growing and pea processing operations may require control of thousands of acres of peas in order to process the peas cheaply. If significant cost reductions are gained by integrating these operations, there is the further problem of who benefits from the cost savings. Farmers through their organizations have been hesitant to integrate forward into processing, although they have just as much right as anyone else to control successive stages of food production. Because of farmers' lack of organization, the role of vertical integration has been assumed by large farm supply and processing companies. It is a fair assumption that these companies gain most of the advantages of integration, and that few of the advantages are passed back as cost reductions or price increases for products produced by farmers.

Some farms may expand to very large sizes, not because of the cost of producing farm products on farms, but because of the advantages gained by vertically integrating farm production with other stages of food production. Aside from studying a few isolated examples of this process, there is no way of accurately estimating its future effects on agriculture. The potential influence of vertical integration, however, is great enough to change the entire organization of traditional agriculture.

Conclusions

The Committee has reviewed many studies relating to size and farm production costs. We have examined size and cost relationships within the farm itself, in the purchasing of supplies and selling of products, and in vertical integration. We have arrived at the following conclusions.

Within the farm

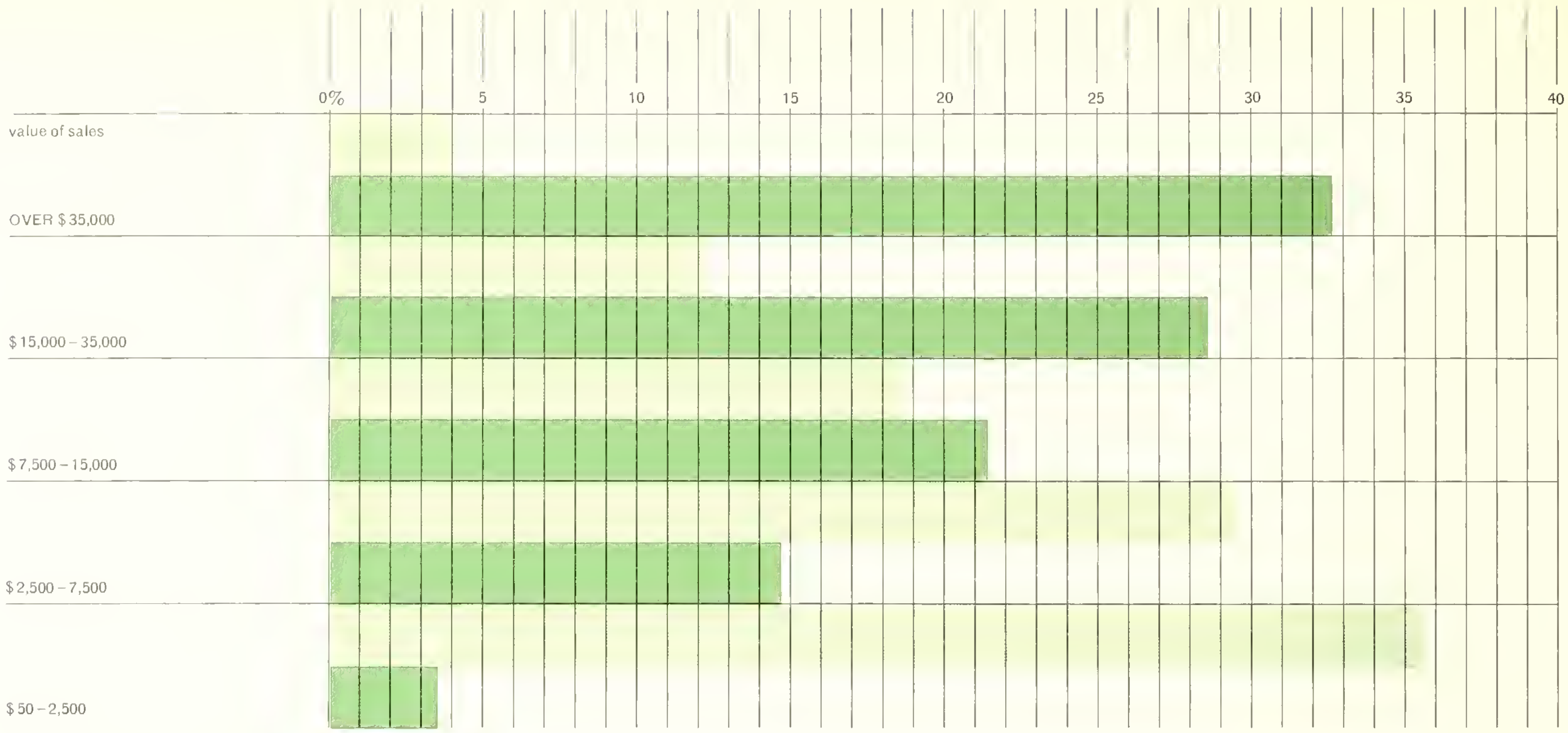
If it is feasible for farm operators to hire lumpy inputs in small amounts (for example, by custom machine hiring or shared use), all of the advantages in size of farm operation can be achieved with an operation run by one, two or three full-time workers. If off-farm work is available, farms that employ even less than one full-time worker may be low-cost producers.

As farm size increases in the one-man or two-man range, average total cost per unit of production will stay relatively

FIGURE 6

NUMBER OF FARMS
COMPARED TO
VOLUME OF OUTPUT

ONTARIO AGRICULTURE
1965



constant over a wide range. In some instances, higher production costs due to management difficulties have been demonstrated. These are of a relatively minor nature and do not occur until farms of very large size are reached. In other instances, lower costs of production have been demonstrated for large farms, but again, these cost reductions are of a minor nature compared to other sources of variation in production costs. In fact, production costs probably vary much more between farms of the same size than between farms of different sizes. Very large farms appear to have no distinct advantage over farms with one, two or three full-time workers.

Farm production costs are relatively constant over a wide range of farm sizes for all of the common farm types in Ontario. As farm size increases, profits per unit remain the same or decline only slightly. Total profits increase because of higher volumes of production.

The real advantage in limiting farm size is having a maximum number of owner- or tenant-operated farms in Ontario. This advantage is social rather than purely economic. In other words the decision to limit farm size boils down to a judgment that twelve owner- or tenant-operated farms are more desirable for the rural community than one farm with twelve workers. A maximum number of owner- or tenant-operated farms is also desirable from the point of view of society in general, when the social and economic costs of moving owner or tenant operators to other forms of employment are considered.

On the other hand, the Committee feels that it is most desirable to develop farms in Ontario that are two- or three-man operated as opposed to one-man. This again is more for social than economic reasons. A farmer today, as a continually adapting member of society, wishes to enjoy the fringe benefits of life available to non-farm people. Examples of such fringe benefits could include one or two days off per week or the opportunity to be ill without the farm wife having to do the farm work.

The Committee feels that the interests of consumers can be served at least as well by a farming industry made up of one-, two- or three-man farm units as by an industry made up of very large units. In fact, the interests of consumers would be poorly served if large scale farms were to reach the position where they have some measure of monopoly power in food production and marketing. This Committee feels very strongly that a farming industry made up of well-run, owner- or tenant-operated farms employing up to three full-time workers is desirable from the point of view of the present rural community and society as a whole.

The argument that small farms are as good as large ones is valid only if we think of size in terms of numbers of workers. If size is defined as output per worker, high costs of production may result when the output of a farm is limited (for instance, with a fixed production quota).

Farmers operate in a changing environment rather than in a static one. To take advantage of new production practices and to meet rising costs of supplies, farmers must continually adjust by employing more capital and land per man and producing higher volumes of product. By restricting the output of a farm over time, these adjustments are made more difficult and production costs inevitably rise. In limiting farm size, it is much more desirable to impose restrictions on the number of workers per farm than to restrict total volume of product per farm. Any restrictions on output, such as production quotas, must be continually re-evaluated and adjusted for changing production methods in farming.

Purchasing, selling, and vertical integration

Although the operators of very large farms may have cost advantages in the acquisition of inputs, similar opportunities are usually available to the operators of smaller units. Farm supply co-operatives or other forms of joint action by farmers can allow small farm operators to obtain these inputs for about the same price as the larger ones. The ability to purchase supplies at favourable prices may have more to do with the operator's management ability than the size of his farm. Most of the cost advantages in purchasing inputs can be achieved by operators of medium-sized farms.

For some products significant price advantages can be gained through size. This kind of advantage is most important for products required on a continuous basis and at uniform quality, as is the case in eggs. For almost all of the farm products produced in Ontario, these price advantages can be gained with medium-sized farms employing one, two or three workers. It appears unlikely that price advantages alone will be an incentive for producers to expand beyond medium-sized production units.

Vertical integration has many potential cost advantages in the production of food. If the role of co-ordination is left to farm suppliers and processors, very large production units controlled by these companies will result. This type of adjustment may force many smaller farmers out of agriculture even though they are low-cost producers of farm products within the farm gate. If farmers are to survive in the food industry, they must be prepared to participate in decision-making for the entire production and marketing process. This may well mean that farmers, through their marketing organizations, will have to assume the role of vertical integration themselves.

The farming industry and its farms

The economic units discussed earlier point out very clearly that there are too many farms and too many farmers in Ontario. The Census of Agriculture reported that in 1966 there were a total of 110,000 farms in the Province: 40,000 grossed less than $2,500, 40,000 grossed between $2,500 and $10,000, 22,000 farms grossed between $10,000 and $25,000, and 8,000 sold over $25,000 worth of product.

With only 8,000 farms grossing over $25,000, it is obvious that the smaller-sized farms cannot begin to approach the size required for adequate incomes from full-time farming. See Figure 6.

Obviously there is a tremendous adjustment problem facing Ontario agriculture. Through the use of the model economic units we have developed some estimate of the extent of this problem can be made. Total production of major farm products in Ontario in 1966 was:

feedgrains	8320 million pounds
milk	6800 million pounds
fruits	1240 million pounds
vegetables	1180 million pounds
beef	575 million pounds
broilers	300 million pounds
tobacco	215 million pounds
pork	200 million pounds
turkeys	75 million pounds
veal	70 million pounds
lamb	23 million pounds
eggs	215 million dozen

If all of Ontario's farms were of the size required for economic farm units in 1966, and if all of the farms in Ontario used the production methods used on these farms, then Ontario's 1966 production of farm products could have been produced on about 36,000 full-time farms. This is an estimate, since economic farm unit models were not developed for all of the major products. Yet it indicates the number of farms that could maintain minimum returns to resources while meeting Ontario's 1966 requirements for farm products. In that year approximately one quarter of the farms that sold more than $2,500 in product were part-time farms. On this basis, the total number of units could have been 42,000 rather than 36,000.

The decrease in number of workers would have been equally as great. With 1966 costs and prices, Ontario's 1966 production could have been produced with about 49,000 full-time workers on the 36,000 farms described above. This is in comparison to the 84,000 workers on farms with sales of over $2,500 in that year. If in 1966 all farmers had obtained minimum returns to resources, there would have been approximately 35,000 fewer farm operators and workers in farming.

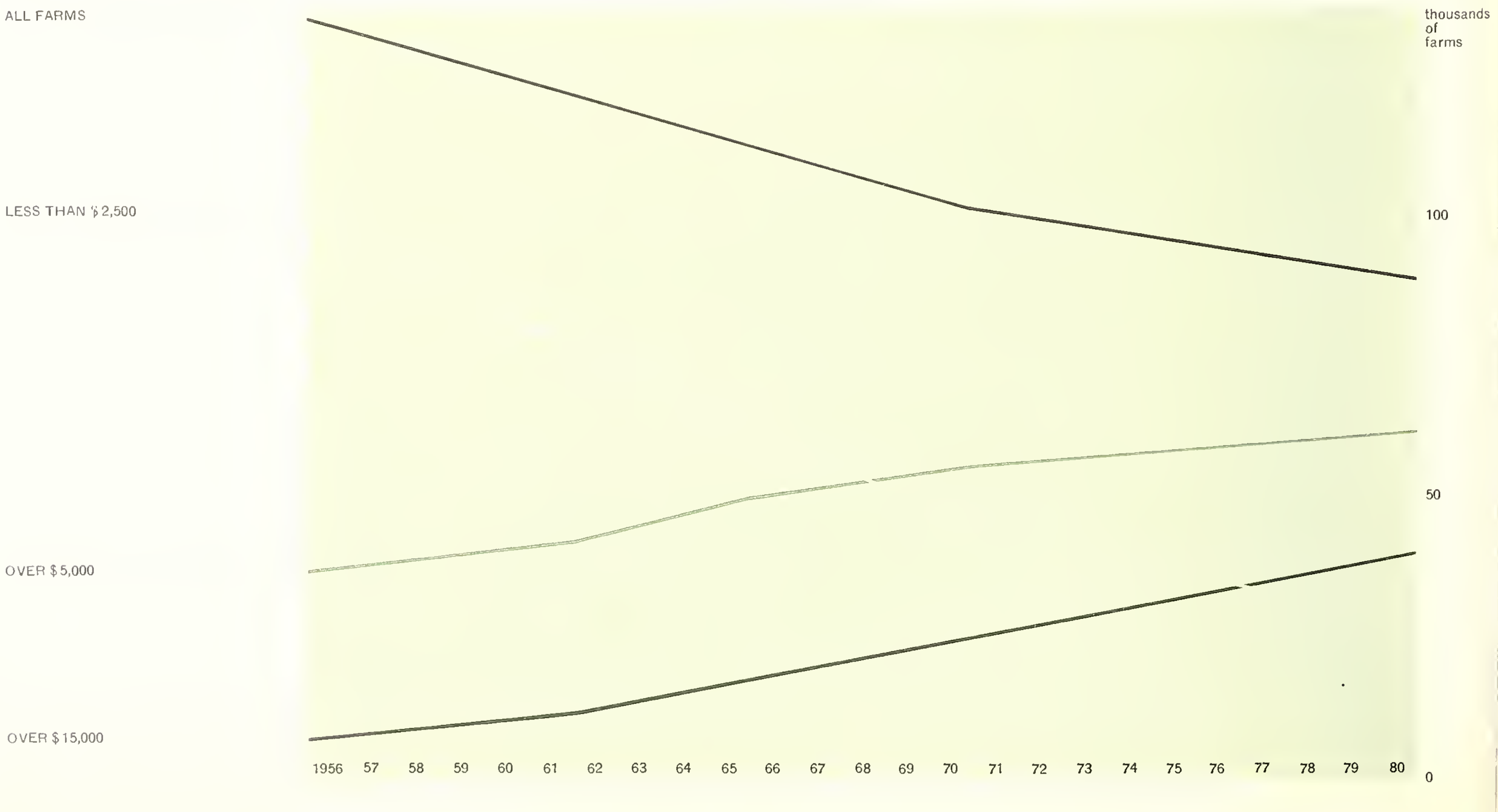
These estimates are based upon the costs and prices that farmers received in 1966, and upon the production practices that were being employed by good farm managers in that year. Later in this report we will discuss the possibilities for making prices for farm products higher and more stable, and for slowing down the increases in costs of farm inputs. Anything that can be done to raise prices or lower costs will mean that minimum resource returns can be obtained on farms smaller than the models developed here, and considerably more than 36,000 full-time farms will be able to make minimum resource returns. If as many farms as possible are to make reasonable returns from farming, then programmes to lower costs and raise prices must be given close attention.

Even if the industry were organized with well-managed, full-time farms in 1969, the problem would not be solved. Although population is increasing steadily and there are some opportunities for increasing production of certain commodities such as

FIGURE

NUMBER OF FARMS
BY
VALUE OF SALES

ONTARIO AGRICULTURE
1956-80



beef, changes in technology will bring about increases in size and level of output per man on our farms. These changes would more than account for increases in consumption. Unless Ontario can sell much larger volumes of its products in export markets, the number of farms will probably have to decrease as these new production practices are adopted. By 1980 even fewer than 36,000 full-time farms might be able to make minimum returns to resources in Ontario agriculture. (See Figure 7 for estimates of numbers of farms to 1980.)

If prices for farm products and costs of the goods farmers buy are no more favourable than at present, then a tremendous amount of adjustment of farms and people is required before the farmers remaining in the industry can come close to the objective of minimum acceptable returns to resources. Clearly this objective will have to be modified to some extent because it is simply not socially desirable or physically possible to move 35,000 people out of farming in the next few years. If the objective of minimum resource returns to farmers is to be attained, even in the long run, Ontario society must be prepared to create alternative employment for almost half of the present farm population. If Ontario society fails to create these alternative opportunities, it must be prepared to bear the high social and economic cost of the failure of the farm community to adjust.

Chapter 4: The labour resource in agriculture

The problem

Decision making

It has been stated many times that the key to success in farming is good management. Individual operators have been classified as good and poor managers with the idea that the prosperity of the operator, his income and general well-being depend entirely on his ability to manage his farm. Poor farm management has almost always been blamed for the low incomes and low standards of living achieved by farm families.

This explanation of the farm income problem is far too simple and leaves too many questions unanswered. First, there is a great deal of confusion about what management is and how a farmer's income is affected by good or poor management. Second, the food industry is large, complicated, and involves many people who have little direct contact with farmers or farm products. Decisions made by other people in the food industry and in society as a whole have a direct influence on the incomes of farm families. Farmers are only a small part of a system that is engaged in the business of food production.

Poor incomes

To say that a farmer's income depends entirely on his ability to manage his farm is to ignore the fact that farm incomes are affected by many factors other than management. This report emphasizes many problems that must be solved for the entire agricultural industry if meaningful solutions to farm income problems are to be obtained.

Individual farmers can never find the solutions to these problems through farm management alone.

That many aspects of farmers' incomes are beyond their control does not make the problem of farm management any less important. Even in industries that are ideally organized from a marketing point of view, differences in the ability to manage will always cause the incomes of some people to be higher than the incomes of others. If as many people as possible are to make a success of farming, it is in the interest of everyone to ensure that Ontario farmers do the best possible job of management.

What is farm management?

A definition

There is a great lack of understanding of the term farm management. The definition used in this study is as follows: Farm management involves the manner in which the principles of management are applied to the operation of a farm business.

Functions of farm management

The functions which farm managers perform are basically the same as those performed by managers in other fields. These include:

Deciding the goals or objectives.
Recognizing and defining opportunities and problems.
Obtaining information and observing relevant facts.
Analyzing alternatives.
Making decisions or choosing an alternative (the core of the management process).
Taking action and implementing the alternative selected.
Bearing responsibility for the decision taken.
Evaluating the outcome.

These functions are closely interrelated and are part of the decision making process. Farm managers will not necessarily go through these eight functions with every problem they encounter. Managers will frequently jump back and forth between the various processes. It is also likely that in certain cases one or more of the processes will be repeated several times. Managers may skip some processes. A great deal can depend on the type and nature of the decision. However, these eight points do show the actual functions of a good farm manager.

Management activities

Figure 8 indicates the variety of activities dealt with by a farm manager. Unlike other types of business where the three general areas of activity are often under different managers, the farm manager must perform all of them. This means he must be knowledgeable in production and organization (for example, what to produce, how to produce, different enterprises, amount of production). He must also be an able administrator, ensuring that work gets done at the right time and the right place, detecting the need for and carrying out adjustments, and collecting and analyzing information to evaluate results. He must also make decisions about the purchase of inputs and the sale of the

FIGURE [illegible] Different management functions and activities on farms

Functions

Deciding the goals or objectives
Recognizing and defining opportunities and problems
Obtaining information and observing relevant facts
Analyzing alternatives
Making decisions or choosing an alternative.
Taking action and implementing the alternative selected
Bearing the responsibility for the decision taken
Evaluating the outcome

Activities

Production and organization activities

How to get land	Purchase
	Lease
	Enterprise Mix
What to produce	Production methods
	Government programmes
Size of the farm	Large scale
	Medium scale
	Small scale
Equipment	Size
	Specialty
	Ownership
	Custom hiring
	Maintenance

Administrative activities

Credit and capital acquisition
Supervision of work
Timing
Production systems
Production and performance records
Accounting and bookkeeping
Pollution control
Lobbying for favourable legislation

Marketing activities

Buying	What to buy
	When to buy
	From whom to buy
	How to buy
	With what to buy
Selling	When to sell
	To whom to sell
	How to sell

output of the farm. Management is involved in all the activities on a farm.

Farm management involves the application of the eight functions of management to the different areas of activities which must be dealt with in any farming operation. When a problem arises or a decision must be made with respect to production, administration or marketing the farm manager will knowingly or unknowingly perform the following activities:

Recognize his goals or objectives
Define the problem or opportunity
Collect the relevant information and specify the alternatives
Make the decision and then take appropriate action to implement it.
Accept (assuming the decision was to proceed) the consequences
Evaluate the results

The farm manager would probably not follow the processes as systematically as this in actual practice but, nevertheless, this skill in all management functions is important in dealing with actual activities on the farm.

A broad concept

Our concept of management is very broad. It means much more than the kind of farm management taught at universities or in short courses on farm accounting. Farm management can involve many people who are not usually considered as being directly involved in the process, such as feed salesmen, veterinarians, and fertilizer company representatives. These people provide the farmer with information on which to make decisions and advice that assists him in managing certain aspects of the business. Our discussion of management programmes therefore goes beyond those that teach management principles, and considers all of the people who provide the farmer with specialized services.

Importance of management

The importance of management is unquestionable. In the very simplest sense management is essential to the farming operation; without it there would be no organized activity of any kind. Management is the resource which co-ordinates all other resources in the production of farm products. The research with respect to management has indicated that superior management would contribute 25 to 30% of additional income over that achieved by an average manager. This implies that the net income on an average farm could vary by thousands of dollars due to the influence of management.

Management is especially important in any field or occupation where there is rapid change. If agriculture were static there would be fewer problems requiring decisions to be made, and farm management would be much simpler. Each year's activities could be an exact duplicate of what was done the previous year. However, in agriculture many changes occur from year to year which affect decisions about size of farm, input mix, climatic or economic conditions. Consequently, as well as implementing action, farm managers must also perform all of the other functions such as reviewing goals and objectives, defining problems, collecting information, analyzing it and determining alternatives, making decisions, bearing responsibility and evaluating the outcome.

When one farmer or group of farmers starts to adopt new techniques and profitable methods of farming, other farmers are forced to adopt them to maintain a competitive position.

Farmers must not only be able to compete with their neighbour across the road, but with other farmers in the province and elsewhere.

To be able to survive in the face of this competition requires that the manager be able to recognize and adapt to change. This demands greater managerial ability than has been required of farm managers at any time in the past. To do better than the average or to be one of the successful innovators in farming requires a very high level of management ability.

Farm management in the future

Changing conditions

Conditions in farming are changing so rapidly that programmes which satisfy present needs may not be appropriate in the future. It is necessary to begin planning now for new programmes. Observation of leading farmers in Ontario and elsewhere gives an indication of future requirements which must be anticipated and planned for.

Poor managers will persist

Even though we can expect the number of competent farm managers to increase in the future and the average level of education to rise, the great income variations among farm managers will persist. There will continue to be very backward farm managers in Ontario for many years to come, though their number will shrink. In the foreseeable future, any farm management programme will still have to consider all types of practising farmers.

Management functions and activities

Increasing complexity and uncertainty associated with farm activities will make it increasingly important that farm managers be able to apply management principles effectively.

The ability to manage, rather than simply to perform farm work, will determine in great measure the success of individual farmers in the future.

Management activities

The three basic areas of managerial activity: production and organization, administration, and marketing, will continue to be relevant in the future. The present activities within each of these groups will continue in one form or another. However, there will be shifts in the relative importance of some of the present activities and new activities will come about because of changes in the industry.

No attempt will be made here to predict how important various activities will be to farm managers in the future. One difficulty associated with such an attempt is that different activities will, as at present, have varying degrees of importance to different managers. It is possible, however, to indicate why some of the activities will be more or less important than they are at present.

Factors which influence the importance of activities for which farm managers are responsible include:

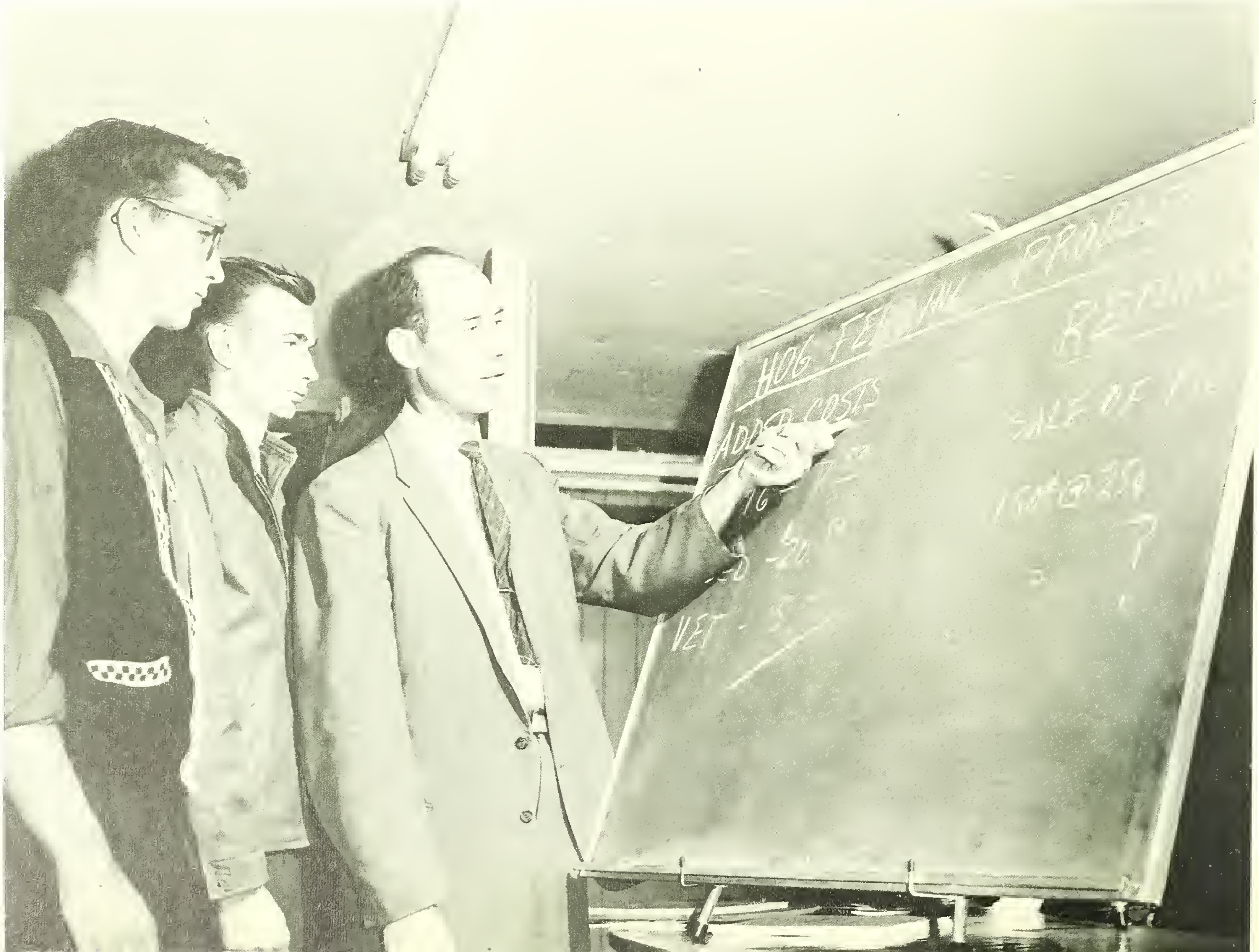
the business environment
the input mix
the degree of specialization
farm output

Business environment

Changes in the business environment will occur in the next 10 to 15 years. Over the last 15 years there have been many changes in government programmes, agricultural technology, overall economic and market conditions. Many of them are all beyond the farm manager's control. He must be capable of assimilating all this information, however, and judging the relevance of it to his own operation. For example, an activity which is becoming important to some farm managers is the control of pollution. Farm management programmes must inform managers of changes which affect them and assist them in dealing with these changes.

Input mix

Changes in the input mix can also result in changes in the importance of activities performed by farm managers. First, they affect their purchasing activities. An example of this situation presents itself yearly, when decisions must be made about whether to use the same type and amount of fertilizer as in previous years or whether to use a different type or amount. Similar decisions must be made with other inputs such as machinery and herbicides. There are also decisions to be made concerning the substitution of one type of input for another; for example, machinery for labour.



Over the next 10 to 15 years, farm managers must be prepared to consider new and different production practices, which will involve emphasis on planning and marketing activities and may also require changes in the skills necessary to employ inputs effectively.

Specialization

In the next 10 to 15 years it appears there will be a tendency to increased specialization among larger farm operators. Such specialization will greatly increase the dependence of the farm manager on the enterprise in which he is specializing. It will be necessary (or at least beneficial) for him to be more proficient in management.

Specialization will force the farmer to depend solely on sales of one product for his income. Narrow margins may be expected as the business becomes more professional in its management and production practices. This will require accurate accounting, because good information on production costs will be essential.

Farm output

Changes in volume of farm output will have an influence on the activities of a farm manager. The average farm size in Ontario will continue to increase. Record keeping and analysis becomes more important as farm size increases. A manager of a small farm may have kept track of his income and expenses in his head, but the complexities of a larger operation require some systematic method of keeping records. The consequences of an error, or of not knowing exactly what his position is, can have a more critical effect upon a larger farmer.

Obtaining and managing capital are more important on larger farms. Buying and selling activities increase in importance with farm size. When larger volumes are being dealt with, it is possible through buying or selling at slightly more favourable prices to save or make substantial sums of money for the firm. The activity of selecting and training hired workers also becomes more important. Success of the business will depend in part on the manager being able to carry on successful relations on a continuing basis with employees, suppliers, buyers and others.

Communication becomes more important as farm output increases. This is because the larger organization will likely be made up of a number of component parts. It is the manager's responsibility to see that the correct information is communicated to the right person at the proper time.

The need for better management

A lack of management capability

The conclusion reached by this Committee is that there is a serious lack of management capability on the part of the majority of farmers. It is not so much the capacity to manage but rather the lack of general education and specific training in management principles that is deplorable. Unused management capacity causes a waste of people and other resources in agriculture. Any major long term programme designed to solve the problems encountered in adjusting to changing conditions should be concerned with improvement in the management performance of producers.

Farm management is not the total answer to the farmers' income problem. However, it does play a key role in any future improvement of the situation. If progress is to be made in reaching the goal of adequate incomes, there is no alternative but to greatly improve the general education of present and future farmers in Ontario. The managerial training of farm people must be upgraded so they will be performing closer to their management capacity and will be able to meet the challenge of an ever-changing agriculture.

No person should be encouraged or assisted to enter into the occupation of farming in Ontario without full and adequate training in farm management. The majority of those presently farming in Ontario with inadequate training must be helped to upgrade their management ability.

Farm management programmes

There are two basic categories of programmes: educational training programmes, and aid or service programmes. The first help the farmer improve his managerial skill so he can do a better job himself. The second provide direct assistance to help the farmer perform a specific function or activity.

There are a number of agencies both public and private which offer farm management programmes in Ontario. Examples of public agencies include the Ontario Department of Agriculture and Food, the Department of Education, the Federal Department of Manpower, the Farm Credit Corporation and the University of Guelph. Private agencies or firms such as feed and fertilizer companies and farm management consultants offer programmes and services to farmers. Some farm organizations are also involved to a degree in farm management.

Service programmes for farmers

In this section we present a brief inventory of the more important service programmes for farmers and assess their effectiveness. Although there are undoubtedly many educational benefits for farmers in the programmes provided by the following agencies, the primary function is the provision of advice and assistance in specific management areas. They do not concentrate on teaching farm management principles.

Commercial banks

There are signs that commercial banks are beginning to take an interest in encouraging and assisting farmers in their accounting practices. Good accounts are one of the fundamental tools of good farm management and banks can assist farmers in preparing good accounts.

Farm supply companies

The farm supply company programmes, in the main, are usually helpful to farmers but their advice is almost always associated with specific products and they usually deal with only one enterprise on the farm. They do not concern themselves with the management of the whole farm and therefore this type of advice sometimes conflicts with the overall management objectives of the farmer. It is desirable that the advice of farm supply companies be consistent with the overall management of the farm so that conflicts can be avoided.

Private consulting services

Most farmers are not convinced that they receive value to match the costs of good farm management consultants. There are a few private consultants who serve the larger farms where the need for management assistance is clearly recognized.

Ontario Federation of Agriculture

The farm management programme of the Ontario Federation of Agriculture is limited to general agricultural information and a farm accounting and income tax service on a pilot basis.

Ontario Farmers' Union

No specific farm management programme is carried on by the Ontario Farmers' Union, but information on the farm situation and conditions and on issues affecting rural people is gathered and disseminated.

Farm Credit Corporation programme

This programme is basically sound and is presented in a helpful manner. However, it covers only those farmers who borrow money from the F.C.C.

Government-sponsored programmes

A large number of service programmes are provided to farmers by the various branches of the Ontario Department of Agriculture and Food and the Colleges of Agricultural Technology. Most of the services are well known to the farm community and need not be discussed at length in this report.

Many of the service programmes are directly related to the field of farm management and contribute significantly by providing farmers with relevant information. Included in these programmes are farm accounting projects, milk recording, performance testing and soil testing. These programmes are of tremendous value in their direct assistance to farmers in management problems. At the present time, however, they fall far short of the need in that they reach only a small number of farmers in relation to the total number who could benefit from them.

The important service provided by the Extension Branch in making technical information available to farm people is recognized. The educational function of the Extension Branch programme is discussed in a following section.

In addition to programmes available to all farmers in the province, there are a number of programmes associated with the production and marketing of specific products. Most of these are offered by various marketing boards and commissions.

Farmer-sponsored programmes

Many service programmes are associated with livestock, and soil and crop associations. These programmes contribute to the total farm management effort in the province with varying degrees of success by promoting better production practices, better livestock breeding and better quality products.

University service programmes

The Ontario Agricultural College of the University of Guelph is responsible for many research and service programmes that are of direct benefit to Ontario farmers. Funds are provided by the Ontario Department of Agriculture and Food through the Agricultural Research Institute of Ontario. These programmes include the processing of farm accounts, farm management, and other technical advice.

It is desirable that the University research personnel have an intimate knowledge of the teaching and extension functions as well as the research function. Because of this, some extension work must be carried out by research staff so that they are aware of the farmers' needs and difficulties. University extension is generally carried out on a fairly sophisticated technical level and therefore is appreciated and understood by only a small proportion of the more progressive farmers. Farm management research being carried out is important and vital to the development of the industry.

General assessment of service programmes

Although many of the service programmes discussed above have provided positive assistance to farmers in the past and will continue to do so in the future, these programmes encounter two major problems. First, they concentrate most heavily on the function of providing information rather than directly assisting the farmer in making management decisions. This is a distinct disadvantage to many farmers because they often find it difficult to make effective decisions even if the relevant information is provided. Many service programmes could be more beneficial to farmers if emphasis were placed on assisting farmers to make the decision rather than simply providing information.

In this respect it is also desirable that service programmes provided by private agencies be co-ordinated with publicly-sponsored programmes as part of the total farm management effort in the province. Advice by private companies is often associated with specific products and is not of benefit to the farmer in managing his whole farm. This situation could be improved if government extension workers were aware of the advice offered by private agencies, and actively assisted farmers in interpreting this advice for the management of the whole farm. This can only be achieved with much closer co-operation between government extension workers and private agencies at the local level.

A second, more serious problem is that service programmes do not reach enough smaller farmers with lower than average management capability. This is understandable in that private companies usually deal with farmers who buy larger volumes of their products. The only way smaller farmers can be served adequately is through a massive effort by public extension agencies.

Veterinary services

Ontario farmers receive most of their day-to-day veterinary service from private practice veterinarians located in the community. Most of the province is well supplied with practising veterinarians and animal health is generally well maintained.

However, the demand for service is increasing more rapidly than the supply of veterinarians in large-animal practice. The Committee suggests that, if livestock herds are to increase rapidly in the future and if high levels of animal health are to be maintained, more veterinarians and veterinary technicians will need to be trained in the province. In addition, it is necessary to provide short courses for farmers to provide them with the training required to administer simple treatment which does not require the service of a highly trained veterinarian or technician.

In remote parts of the province, where scattered farms make local veterinary service difficult and costly, the province subsidizes veterinary services. This policy should be continued and perhaps expanded if required.

More attention should be given to short courses and training schools to provide farmers with knowledge of preventive medicine, including disease control programmes and herd health maintenance. Much of this work can be done by Extension Livestock specialists, working closely with veterinarians on the staff of the Colleges of Agricultural Technology and the University of Guelph. The need for such services is demonstrated by the fact that some larger farmers have contracted with free-enterprise veterinarians for continuing animal health services. It is the opinion of the Committee that smaller operators, to become viable, will require similar assistance from the private or public sector.

Laboratories to assist in diagnosis and extension are located in Kemptville, Brighton, Guelph, Ridgetown and New Liskeard. **Demand for this service has been growing rapidly and the Committee recommends the establishment of additional laboratories as required.**

Farm accounting services

The most pressing need is for adequate farm accounting systems. A comprehensive, simple and accurate system such as the Canadian Farm Management Data System must be made available to every farmer in the province, and the use of this system actively encouraged through extension workers, farm organizations and marketing agencies. **This Committee recommends that the CANFARM system be made mandatory for all farmers who use government programmes such as credit, management counselling, input grants and A.R.D.A.** This system should eventually include such programmes as Dairy Herd Improvement and Record of Performance to give Ontario farmers a comprehensive accounting system which covers all aspects of their business.

Education and training programmes

This section presents a discussion of the programmes that function primarily for the education and management training of farmers and rural people in Ontario. These programmes can be divided into three categories: education for rural youth, training for potential farmers, and training for present farmers.

Education for rural youth

The general education system

In many cases the most important assistance that can be given to rural people should be given before the decision to farm is made.

A serious problem in agriculture is that there are too many farmers, and many are farming for the wrong reasons. Many young rural people begin farming with no clear understanding of farm problems or of the many opportunities to make a better living in some other occupation. Young people who enter farming without this understanding are often fully committed to farming before they realize that they had little chance of success and could have made a much better living elsewhere.

No farm management programme can solve this problem. If young people are to make the decision to farm on a sound basis they must be provided with the necessary information and guidance. There is no co-ordinated or effective guidance programme to accomplish this objective.

The Ontario Government has placed top priority on investments in education in recent years. A massive reorganization of the secondary school system and the introduction of Colleges of Applied Arts and Technology for vocational and technical training at the post-secondary level has been undertaken. This has provided much improved educational opportunities for rural as well as urban young people.

Unfortunately, the educational requirements of rural young people remain unsatisfied in several respects. Rural people are in many cases the last to receive the benefits of good education and significant gaps between rural and urban communities still exist.

Rural people must also be able to recognize new areas of development in their own community and not continue to regard farming as the only opportunity available. If rural people who are not suited for farming are to be guided into other occupations, much more emphasis must be placed on helping them to make sound decisions about their future occupations based on complete and accurate information about opportunities both on and off the farm. Guidance programmes in secondary schools must be made more effective in this respect, and guidance teachers must be assisted in every possible way in the task of outlining farm and non-farm opportunities to farm youth.

A more complete discussion of the general education system for rural youth is presented later.

School & Sports
SCIENCE
ENGLISH

Other educational programmes for rural youth

The attitudes of young farm people toward rural life are influenced by many institutions other than the secondary education system. 4-H and Junior Farmer programmes are designed specifically for young farm people.

These programmes have many positive effects in developing responsibility and leadership through group participation. The 4-H clubs help people to acquire knowledge and skills in the technical aspects of farming. However, it is this function which causes a misdirection of some young farm people. At a time when there are still too many young people with good alternatives being trapped in farming, the 4-H and Junior Farmer organizations are making too little effort to point out the disadvantages of farming as an occupation. In fact, they may encourage young people to consider farming as an occupation when they would not otherwise do so, by promoting their interest in the more glamourous aspects without pointing out the economic problems.

If these programmes are to serve the needs of rural communities effectively, they must be broadened and redirected to point out all of the opportunities available to young farm people, and to encourage entry into other occupations for those who will not be likely to succeed as farmers. They must seek the participation of many parts of the rural community that are not directly connected with farming.

A re-orientation of 4-H Club programmes is needed to involve non-farm youth and to ensure that a narrow agricultural base will not trap rural youth unsuited to farming. 4-H must be a part of co-ordinated action for rural youth guidance.

Greater attention must be given to the individual needs of young rural people. Non-agricultural projects should be available which would assist 4-H members in choosing a career.

The Committee recommends the formation of Rural Youth Councils to recommend policy and to co-ordinate activities of all rural youth programmes. These Councils would involve farm and non-farm people interested in youth, including educators, farm youth leaders, community recreation leaders, rural clergy and O.D.A.F.

Co-ordination by Councils of this type would ensure that orientation of 4-H Clubs would be expanded beyond the farm and into the rural-urban community. They would also allow for an exchange of ideas and co-ordinated action by people working with rural youth.

Education for potential farmers

It is in the interests of the industry and of society to see that new entrants to agriculture have a maximum opportunity to achieve success. This means they must have full and adequate training in the principles of farm management. Programmes to give specialized training to potential farmers are carried out at present through the Ontario Agriculture Diploma Programme and the C.A.A.T. Farm Management Programme.

The Ontario Agriculture Diploma programme

The Ontario Department of Agriculture and Food has established four Colleges of Agricultural Technology at Kemptville, Ridgetown, Centralia and New Liskeard, with a current enrolment of 530. In addition the Department has a contract with the University of Guelph for the training of an additional 350 diploma students. Since these are two-year courses the number graduating annually is approximately 440.

These colleges provide specialized technical training for potential farm operators. The programmes emphasize management principles and attempt to give students a broad training to cope with the problems of agriculture in the future. The two-year course is now aimed at training future managers for Ontario farms.

The diploma course provides extremely valuable training for the potential farmer. There is some question, however, whether or not the prime contribution is in providing the potential farmer with a better look at the problems of farming along with a new look at the breadth of his own alternatives. During the post war period about 50% of the diploma graduates in agriculture became farmers and the others accepted employment in industry related to agriculture. This means that the diploma programme produces only about 200 farm operators per year. The large number of potential farmers who do not follow through into farming clearly suggests either that these courses provide information on alternative occupations or that they provide good training for jobs outside farming. **The Committee feels that this dual service should be maintained and recommends that the courses be reviewed to ensure that broadly based business training is provided to all students.**

Training for non-farm jobs related to agriculture is important. A rough approximation is that for every on-farm job there are three off-farm jobs related to agriculture. However, the establishment of C.A.A.T.'s for post-secondary vocational training will increase the supply of diploma level graduates for many off-farm jobs related to agriculture. In any case the training of competent farm operators is a much more urgent need from the standpoint of the agricultural industry.

If training at the diploma level is considered necessary or desirable for most farmers in the future, present facilities are entirely inadequate. If the farming industry is to contain somewhere between 30,000 and 40,000 well-run farms of adequate size and if the average tenure of a farm operator is about 25 years, then 1,200 to 1,600 new farm operators will be needed each year. Although many farmers without diplomas have been very competent managers in the past and will be in the future, many others would benefit from diploma training, and the present level of 200 diploma-trained farm operators per year falls far short of this need. Rapid expansion of these facilities will be required to bring the number of graduates closer to the needs of Ontario agriculture. Whether the responsibility is accepted by the Ontario Department of Agriculture and Food or by the Ontario Department of Education is less important than that it be fully recognized.

C.A.A.T farm management programmes

In the last couple of years, three Colleges of Applied Arts and Technology have offered courses in farm management to local students. Since each college in Ontario has a separate administration empowered to assess local needs and establish courses in any subject, there are no formal links between these colleges and the Department of Agriculture and Food. However, the staff for agricultural subjects given by Fanshawe College in Woodstock is provided by the College of Agricultural Technology in Ridgetown and the two are integrated to this extent.

The programme at the Fanshawe College is patterned along the lines of the agricultural diploma course but the emphasis is on management. In this respect it compares favourably with other vocational courses in the province, with the added advantage of bringing the course closer to young farm people.

It is too early to assess the results of this type of course, but what has been done could lead one to speculate that these colleges, if assisted by the experience and knowledge of the Department of Agriculture and Food, can go a long way toward providing adequate vocational training in agriculture at a minimum of expense and inconvenience to the students concerned. This Committee feels that it is essential that an effort should be made to co-ordinate the programmes of agricultural colleges and C.A.A.T.'s so experienced agriculture teachers and comprehensive subject material can be provided for these college programmes. If programmes at these colleges can be made to complement those at the Colleges of Agricultural Technology they can contribute significantly to the training of potential farmers by increasing the present limited enrolment in diploma-type agricultural courses.

There is an essential link between agricultural education, research, and extension services, and the Colleges of Agricultural Technology are involved in all three functions. For this reason the Committee feels that they must remain under the administration of the Department of Agriculture and Food.

Training for present farm operators

Upgrading the management capability of present farmers

Although a maximum effort must be made to ensure that beginning farmers are adequately trained for their occupation, the greatest need for training is with the people now farming in Ontario. In any attempt to solve the income problems of present farmers, primary concern must be given to upgrading management skills.

The primary responsibility for educating farmers in the past has rested with the Ontario Department of Agriculture and Food, and this responsibility should continue in the future. The two major programmes operating at the moment are the Ontario Agriculture College Correspondence Course at the University of Guelph and the Extension Branch Farm Management Programme.

Ontario Agricultural College correspondence courses

The Ontario Agricultural College at the University of Guelph, through its Department of Extension Education, makes available to the farming public and allied industries a series of correspondence courses in Agriculture and Horticulture. These courses include accounting, economics, farm record-keeping, farm analysis, income tax and financial management, together with many other courses that could be considered a part of farm management.

There are presently about 1,700 people involved in the programme with approximately 100 of these studying farm records and 50 involved with farm management courses. The system could handle many more people.

These correspondence courses are directed at the present farm operator who is willing to study and work. Experienced and well-trained programme leaders contribute to the courses through top quality course material and advice. However, the number of farmers taking the courses is small.

The Extension Branch farm management programme

The Extension Branch of the Department of Agriculture and Food has clearly defined functions in the educational as well as the service aspects of farm management. The educational part of its activities includes evening courses and meetings with farmers, in-depth short courses, teaching carried out through personal contact with farmers, and the teaching of farm accounting procedures. The primary responsibility for farm management rests with the agricultural representative at the local level. Programme assistance is provided by farm management specialists. Because agricultural representatives have varying degrees of training in management principles, there is considerable variation in programmes. Because the specialists must work directly in the farm management programme and must cover a number of counties they have very heavy work loads. Many more farm management specialists should be provided as soon as possible.

As well as its own short courses and meetings, the Extension Branch has participated in adult training programmes sponsored by the Ontario Department of Education and the Canada Department of Manpower. These courses, called 'This Business of Farming', were held at seven locations and varied from six weeks to twenty weeks in length. While farmers received payment for attending the courses, they were obviously impressed with their value. The Committee believes this programme should be expanded as soon as possible.

The Extension Branch has been redirecting its programmes and is well in tune with the general philosophy that farming success requires good management; thus extension should be synonymous with farm management and service training. Because most farmers have not had adequate training in the past, the retraining and updating of the major portion of Ontario farmers is a very large job.

Some extension workers have major adjustments to make in accepting this new philosophy as old ways die hard. Many farmers are still being helped to continue their struggle to produce without learning that it is economically hopeless. In such situations farmers should be told there is little hope of improving their situation and they could then consider getting out of farming to take advantage of opportunities for retraining and developing other skills. More emphasis should be placed on this aspect of the programme.

The progressive farmers who ask for help are well served by extension although the innovators perhaps contribute more than they receive. Very often, service is not available as promptly as required. More trained extension workers are needed.

Agricultural and Rural Development Act programme

A.R.D.A. has two basic links with farm management. One is the farm enlargement programme and the counselling associated with it. The other is the retraining programme in which A.R.D.A. plays a part. The farm enlargement programme is restricted to regions where land costs are relatively low, and it has shown a considerable degree of success in its initial efforts.

A.R.D.A. also provides a counselling service to farmers who request it. This service should be expanded and a more aggressive approach taken to ensure that all farmers are made fully aware of alternatives open to them.

An effective farm management programme

Needs

Ontario farmers need:

1. Unrestricted access to a sound general education for rural youth.
2. Freely available and effective vocational training emphasizing the principles of management.
3. Adequate service programmes oriented to farmers with high levels of managerial training and ability.

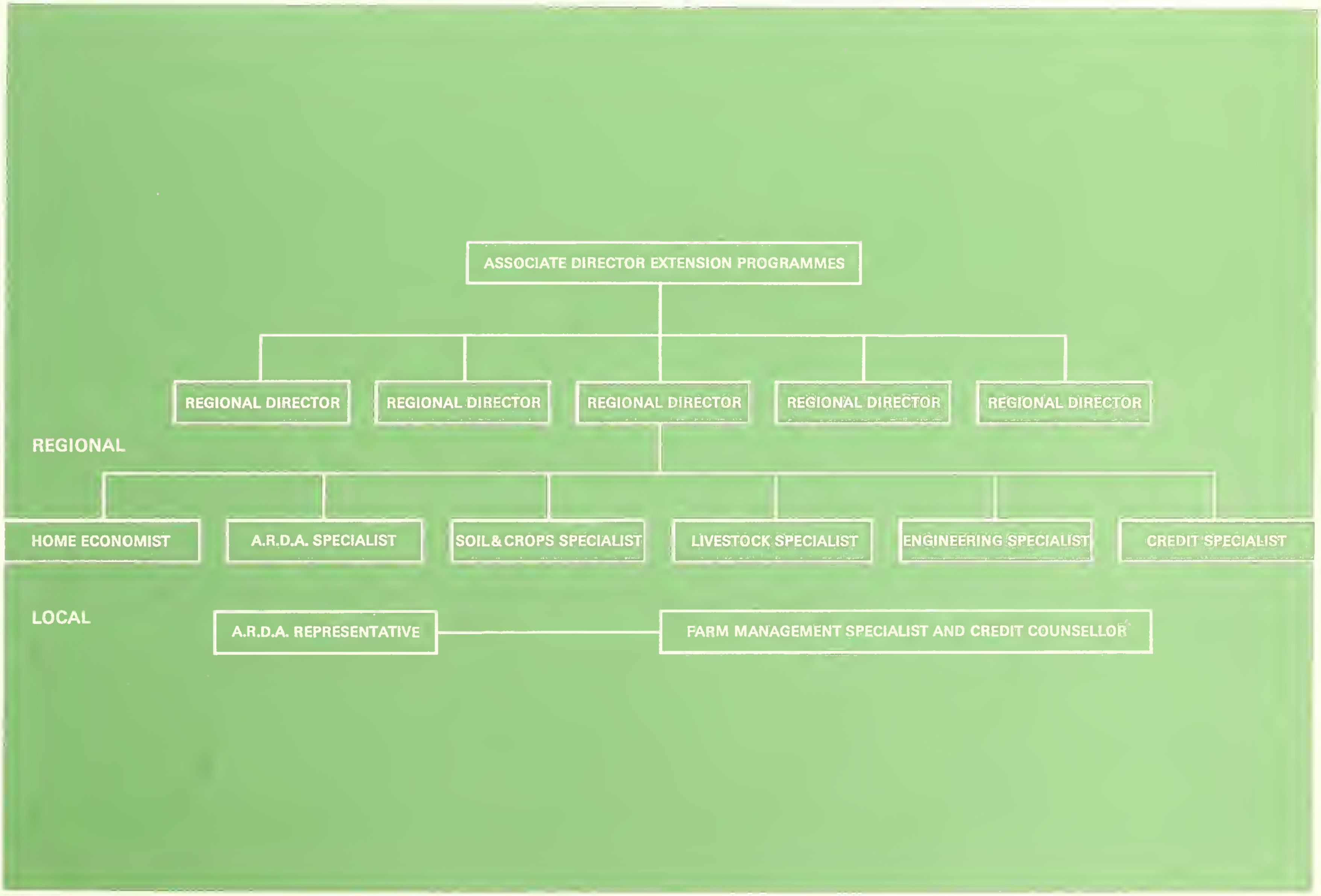
It is recommended that the Department of Agriculture and Food continue to give positive leadership in the areas of agricultural research, education and farm management extension. The farmers of Ontario should expect that this leadership will be given direction by a sound and continuing analysis of farmers' needs.

Government responsibility

The Ontario Department of Agriculture and Food must do everything possible to see that every new entrant into farming is

FIGURE 9

ORGANIZATION
OF EXTENSION ACTIVITIES
AT REGIONAL
AND LOCAL LEVELS


ASSOCIATE DIRECTOR EXTENSION PROGRAMMES
REGIONAL DIRECTOR
REGIONAL DIRECTOR
REGIONAL DIRECTOR
REGIONAL DIRECTOR
REGIONAL DIRECTOR
REGIONAL
HOME ECONOMIST
A.R.D.A. SPECIALIST
SOIL & CROPS SPECIALIST
LIVESTOCK SPECIALIST
ENGINEERING SPECIALIST
CREDIT SPECIALIST
LOCAL
A.R.D.A. REPRESENTATIVE
FARM MANAGEMENT SPECIALIST AND CREDIT COUNSELLOR

capable of managing his operation, that every present farmer has unrestricted access to training, that adequate service and extension facilities are provided so he can carry out his decision-making processes at a high level of efficiency.

The Department of Agriculture and Food is working hard to provide farmers of Ontario with adequate farm management service and educational training facilities. However, no matter how worthy the effort, what has been done appears vastly inadequate. While the Extension Branch is trying to educate and service thousands of present farmers, the vast majority of new entrants are inadequately trained and often have little realization of the difficulties that face them.

Farmers must become fully aware of the changes in agriculture. The Department of Agriculture and Food must somehow stem the tide of untrained and unprepared young people entering farming through a well-directed information programme that warns of the problems involved and at the same time offers information so a sound decision can be made. **The Committee recommends that this information programme be given top priority.**

Organization of rural extension activities

To accomplish the tremendous task at hand, the extension staff of the Department of Agriculture and Food will have to accept farm management service and education as a major responsibility. Most county agricultural representatives should be trained farm management specialists and their role expanded in credit counselling, management consulting, and teaching farm business principles in short courses and clinics. Local societies and associations such as livestock clubs, agricultural societies and safety councils will have to become self-operative without the direct supervision of the local farm management specialist. Professional staff of the Ontario Department of Agriculture and Food should be used in a professional role and their time freed for the more pressing demands of management, teaching, service and credit counselling.

To better serve the management needs of farmers there will have to be a redistribution of extension personnel throughout the province. If the number of agricultural representatives per county at present is compared with the number of viable or potentially viable farms, the proportion varies widely. In addition, local A.R.D.A. staff should be employed in relation to the number of non-viable farms in the county. Our research has indicated that there is a gross imbalance in the present distribution of government field staff. This should be corrected, by matching farm management and A.R.D.A. specialists to the needs of the area. In some cases this will require grouping of services covering more than one county.

Regional offices should be created and should include specialists in credit, adjustment counselling, farm management, soil and crop management, livestock, engineering and home economics. A Regional Director would be responsible for the administration of the regional office, the direction and co-ordination of regional farm management programmes and the co-ordination of activities of the other specialists. Although the specialists would be responsible to the Regional Director in their day-to-day activities, they would maintain communication with their respective branches at the provincial level for co-ordination and direction in the technical aspects of their programmes. The suggested organization is shown in Figure 9. This would allow all extension service personnel to operate as a regional team.

The number of regional offices should be expanded to assure all local farm management specialists and A.R.D.A. staff adequate support and direction. From ten to twenty regional offices could eventually be required.

A Rural Human Resources Council

Co-ordination of education needs

If the management capability of Ontario farmers is to be improved it is essential that all of the agencies involved work toward this common goal. The task is of such enormous proportions that only the combined efforts of all concerned can accomplish it.

This Committee recommends that a Rural Human Resources Council be established to co-ordinate education, guidance and training of farm and rural people. This Council should be under the chairmanship of the Deputy Minister of Agriculture and Food. It should be composed of senior representatives of government departments involved, including the Ontario Department of Agriculture and Food, Education and Labour and the Federal Department of Manpower, as well as appointees from the rural community. The Council will provide leadership and co-ordination by helping the different agencies work toward a common goal. It should promote all desirable activities relating to the education and training needs of present and potential farmers. Once established, this Council must analyze the need and give direction to the total Ontario farm education, management and adjustment programme. It must see that individual programmes are continually assessed, evaluated and in sympathy with provincial policy.

The Rural Human Resources Council should assist the Department of Agriculture and Food and other government departments concerned with establishing long and short term policies. A long term policy must outline the methods to be followed to ensure that new entrants into farming are well prepared and that the decision to farm is made intelligently. Short term policy must provide for managerial training and assistance for all present farmers and should direct the expansion of adjustment programmes. The Council should report to the Cabinet through the Minister of Agriculture and Food.

Information on farm prospects

The Department of Agriculture and Food together with the University of Guelph and the Department of Education must co-operate to see that all guidance staff as well as vocational teachers and practising farmers have complete information on farming as an occupation. The Council should ensure that a definite research and information programme be developed to concentrate on this area of work.

Co-ordination of education programmes

The Council, in line with the long and short term policies, must see that the educational programmes consider farmers' goals and objectives as well as placing more emphasis on the development or upgrading of their managerial capability. Attention should be paid to the co-ordination of vocational training now given at Agricultural Colleges and the Colleges of Applied Arts and Technology (C.A.A.T.). More adequate career guidance and vocational training should be provided through the secondary schools and C.A.A.T.'s. In order to benefit from research and extension activities and to obtain qualified teachers, these colleges must be co-ordinated with agricultural colleges in the province, and this should be part of the Council's responsibility. The Council should also be responsible for co-ordinating and giving leadership to the Rural Youth Councils discussed earlier in this report. It is also expected that the Council must guide and assess provincial efforts in research in farm management.

Conclusion

If Ontario society is serious about solving the problems of low incomes and low resource returns in farming, there is little choice but to give education, farm management, training and service programmes top priority. All the programmes discussed in this section must be initiated as quickly as possible.

Financial considerations will determine how rapidly they can be carried to completion. However, the sooner this is done, the sooner Ontario society will begin to prevent the human suffering and poverty that goes along with misinformed people and mismanaged resources. Full co-operation and co-ordination must be obtained between the Department of Agriculture and Food and the Department of Education, the University of Guelph, and other public and private institutions.

Because the proposed Rural Human Resources Council can play a crucial co-ordinating role in the development of rural education programmes in the province, the establishment of the Council must be given top priority.

Chapter 5: Capital on Ontario farms

Capital use

Capital in agriculture

For the purposes of this report capital is defined as durable inputs or the means of purchasing them. Capital may have been saved from consumption to be used in production. Such a definition makes no distinction between land and other inputs and includes both public and private sources. It includes land, buildings, livestock and machinery used directly by the farmer or capital used indirectly for agricultural research or education.

Credit

Credit is one means of obtaining capital. Credit – borrowed capital – can be defined as an intangible, marketable commodity known as debt having a quality not unlike all other goods and services. Credit is something a debtor sells. The quantity he can sell, and the price of it, depend on its quality.

Capital can be accumulated from such sources as savings, government grants and subsidies. Capital can also be saved by renting land or other goods used in production, or it can be supplied by farm supply companies for use in farming. All of these sources contribute to the capital used by Ontario farmers in producing their products. Emphasis will be placed on the credit sources available to farmers in Ontario, and on the availability and cost of credit from these sources.

Substituting capital for labour

The use of capital in farm production is an important aspect of the farm income problem. The fact that returns to farm labour and farm capital are low implies in part that these resources must be re-organized and combined in a different manner. Although it is obvious that there are too many farm operators and thus too much labour in agriculture, the question of whether or not there is too much capital is more complicated. Raising the returns to labour on individual farms involves the increased use of capital on these farms. In most cases this means a substitution of capital in machinery, land and buildings for labour, and the use of more capital in the form of purchased inputs such as fertilizer and feed.

For most farmers, the substitution of capital for labour usually means adding more capital and not reducing labour. Unless opportunities for off-farm employment are exceptionally good, most farmers will not have the opportunity to market part of their labour off the farm. The labour force on most farms cannot easily be reduced below the amount provided by one full-time operator. The only way a farmer can obtain better returns to his labour is to add more and more capital (including land) to his operation even though this capital may yield little more than its cost in the farm use.

Since fewer and fewer farmers will be needed to supply Ontario's farm products, it is possible that a reduction in the total amount of capital (including land) used on Ontario farms is necessary if adequate incomes and returns to labour and capital are to be obtained.

The challenge is to create fewer, larger and better managed farms so the operators can obtain better incomes, while at the same time shifting surplus people to other forms of employment and surplus capital (including land) into other uses.

The capital structure of Ontario farms

Capital sources

The various ways in which capital can be obtained for use in farming are shown in Figure 10. These sources include equity capital, borrowed capital and capital supplied by farm suppliers or processors (integration capital).

It is estimated that almost 78% of the capital used by Ontario farmers is owned by farmers themselves (their equity). Another 8.5% is provided as rented real estate, and the balance of 13.5% is supplied by a multitude of creditors.

Equity capital

The high proportion of equity on farms comes from savings, mortgage repayments, inflation and gifts. It is also due to the advanced age of most Ontario farmers and the desire to own their land and other resources for retirement purposes. In the future the amount of capital required to establish or expand a farm unit will be far in excess of what the individual can expect to accumulate from savings in a lifetime. Farmers will have to depend much more heavily on sources of inherited or borrowed capital than on their own forced saving.

Present capital and credit sources are far from adequate for the purposes of supplying the amounts and types of credit required. The problem is serious for those who wish to and need to expand continually. It has not become widespread, because the large majority of Ontario farmers are of such an age that they do not wish to, do not have to, or are not physically able to expand their operations. It is probable that many farmers will be faced with serious capital problems if a suitable policy is not established immediately.

Subsidies and grants

Input subsidies

The Federal and Provincial governments make available to Ontario farmers a very large number of subsidies on farm inputs. These range all the way from capital grants, feed freight assistance, adverse weather assistance to credit subsidies. The total dollar value of input subsidies in Ontario per year is in excess of $13 million, and administration costs are substantial.

Unfortunately most of these subsidy programmes are not capable of fulfilling their objective, which is to improve the net farm income of the individual operator. In the short run, input subsidies tend to hold people and capital in agriculture when they should be helped to leave, or encourage people and capital to enter agriculture where they may be least needed. At the same time, the efficient operator is stimulated to produce more, often resulting in surpluses at prices which cannot provide reasonable returns to labour and capital. Subsidies hold less capable farmers on farms that cannot support them without subsidization, thus tying up land that more efficient operators could use. Subsidies on fixed facilities (interest subsidies on land mortgages) tend to drive up the market price of land. The resulting higher mortgages that must be paid off over a given number of years make a further drain on cash farm income.

Subsidies in other countries

The question of subsidies and their impact on farmers is not confined to the province of Ontario alone. Other countries grant extensive input subsidies to their farmers; these subsidies have the effect of altering the competitive position of Ontario producers. International trade agreements such as G.A.T.T., that prohibit the use of tariffs as a means of support to domestic producers, have had the indirect consequence of encouraging the use of input and output subsidies. Input subsidies used by governments in other countries to support their producers will put Ontario (and Canadian) farmers at a disadvantage. The use of subsidies in this manner means that Canadian farmers must bear the cost of solving agricultural problems in other countries. This situation is unacceptable and will be dealt with in the marketing section of this report.

Problems with subsidies

In the long run the increased output brought about by the input subsidy 'stimulant' results in lower free market prices. The combination of the free market price and the subsidy might conceivably be equal to or less than the original price. The income problems of the small farmer are not solved and the larger efficient operator is restrained from reaching his best level of output. The policies of subsidizing the price of inputs or allowing easy access to credit are futile attempts to treat the symptoms of the disease, namely low farm incomes, rather than the disease itself. One of the diseases that must be treated is too many resources, particularly people, bottled up in agriculture with very few and limited programmes available to release them.

The fact that input subsidies in themselves are not capable of accomplishing the long run objectives of higher farm incomes does not mean that subsidies of all types should be discontinued immediately. Subsidies that are not tied to inputs, but improve the management capacity of farm operators or otherwise assist them in adjusting to larger, better managed units, are of tremendous value. This would include programmes such as farm accounting assistance and milk recording.

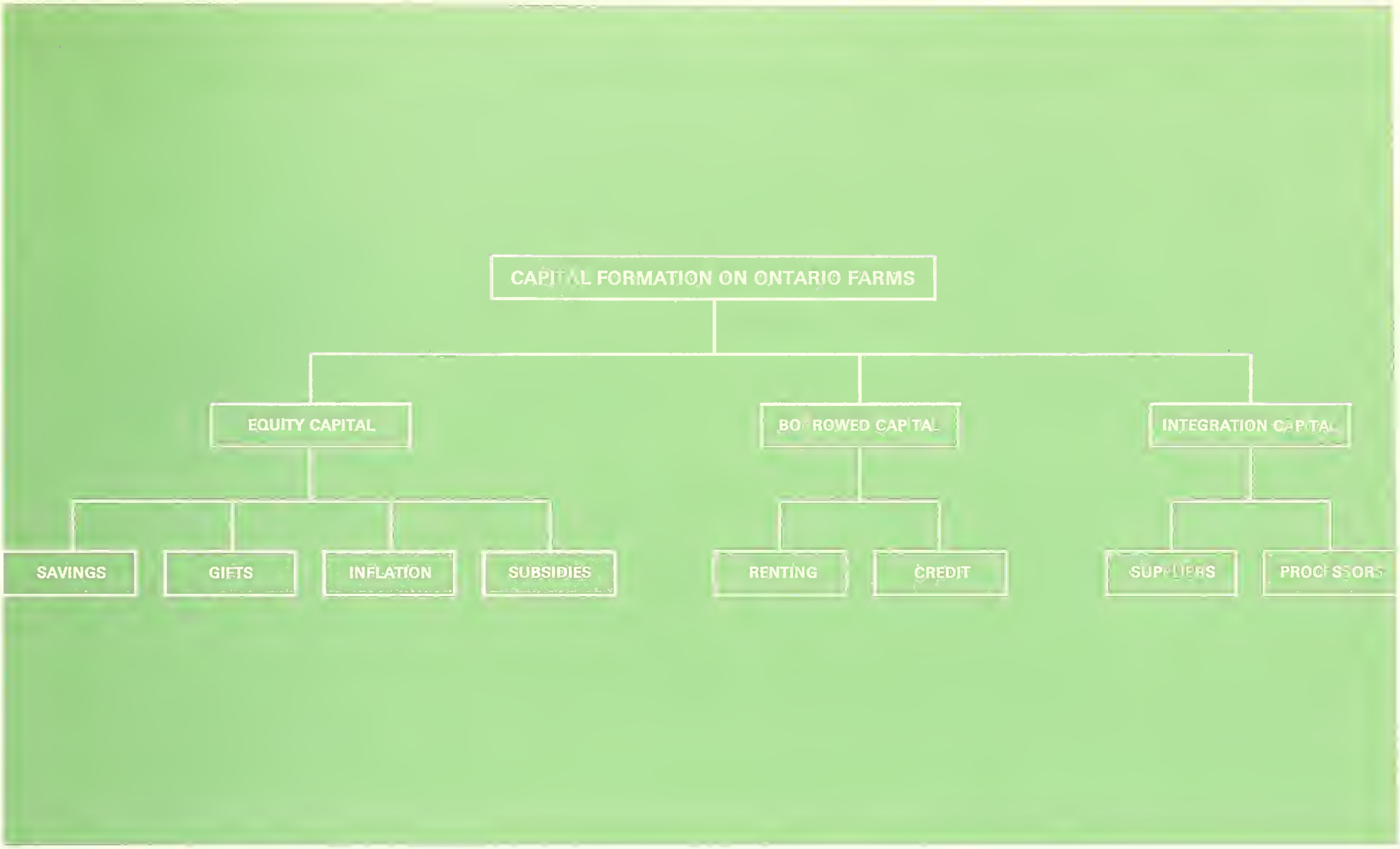
The best use of public funds will be ensured by continuously evaluating all subsidy programmes, phasing out those that contribute to increased production without really helping farmers, and re-allocating these funds to projects of long-run benefit.

Capital grants

The capital grants programme, created to provide financial assistance to farmers making capital improvements, is one of the most widely-used subsidies in Ontario. The programme started operation on April 1, 1967. Approximately $4,127,000 was paid out to farmers in capital grants in 1967.

Observations would indicate that many farmers are using the grants as equity to obtain additional credit for farm improvement programmes. Some farmers are undoubtedly using capital grants to good advantage. However, it would appear that many of the grants are going to farmers who could easily carry out their programmes without assistance, and many others are receiving grants to make improvements which are neither in their own best interest nor that of the farming industry. The capital grants in these cases may be retarding proper adjustments in the use of farm resources.

FIGURE 10



Many people who have taken advantage of the capital grants programme have full-time jobs and do not depend primarily on farming for their incomes. It is questionable whether subsidizing these people uses public funds to best advantage. On the other hand, the $3,000 minimum gross sales necessary to qualify for a grant means that many people who may have little chance of earning a reasonable living from farming are receiving assistance.

The capital grants programme should be discontinued except where it can be clearly demonstrated that grants are of assistance to farmers becoming operators of properly managed, full-time farms of adequate size. The capital grants programme should also be considered an integral part of the general credit programme.

Public funds saved through a severe reduction of capital grants could be better used in programmes of long-run benefit to Ontario farmers.

Credit subsidies

Both federal and provincial public lending agencies have had policies of subsidized credit to farmers for many years. At present the interest rates in Ontario on farm loans from these agencies range from 5% to 7¾% under a variety of terms and conditions.

In the last several years, the great majority of funds (75% to 80%) provided by these agencies have been for farm real estate. Under these conditions the credit subsidies paid out were probably reflected in higher costs for land and buildings purchased with the loans and were of little direct benefit to farmers. An important secondary effect of subsidized credit is that banks and other private agencies are reluctant to compete in the farm loan market and thus the flow of funds to good farm managers is restricted.

Public funds presently used to subsidize credit could be better used in programmes of more lasting benefit to farmers as described elsewhere in this report. The policy of subsidizing interest rates should be re-examined closely and discontinued as soon as possible. There is a major problem, however, in that Ontario farmers may not be competitive with those in other provinces if credit is set at normal interest rates in Ontario and remains at lower levels in other areas. In Quebec, for instance, credit is available from public sources at rates as low as 2½%. An attempt should be made to negotiate with the federal and provincial governments to standardize credit policies in all of the competing regions in Canada. If federal funds are to be made available to provinces for farm credit, then all farmers in all provinces should pay the same rate of interest with no provincial interest subsidies.

Capital invested in land

Rising land costs in recent years have pushed the level of capital required for farmers to own land to very high levels. These costs make it difficult for present operators to expand through the purchase of land, and even more difficult for beginning farmers to purchase all of their land requirements.

More farmers should rent land. In fact, more farmers will be forced to rent land because they will not be able to afford the luxury of owning all the land they farm. Land renting will be further discussed in the land section of this report.

Borrowed capital

Sources and cost of credit

Ontario farmers use many sources to satisy their credit needs. Sources such as dealers and suppliers are often not equipped to handle credit properly, but are forced into it by competition or the lack of alternate sources for the farmer.

Sometimes by choice and at other times by necessity, many farmers use high-interest credit and further burden their cash incomes. Our researchers made a study of a sample of 1,000 Ontario farmers who had applied for Farm Credit Corporation loans. This study revealed that 40% of these farmers used some high-interest credit (at rates greater than 10% per year) to finance their operations. The same group used 56 cents of high-interest credit for every dollar borrowed from the chartered banks.

Although only 5% of all the credit borrowed by the sample of 1,000 Ontario farms was at interest rates above 10%, 31% of all the machinery credit of these farms was borrowed at the high interest rates. Annual interest rates of up to 33% were identified by the researchers. Three hundred and twenty of the 754 farms (42%) financed at least a part of their machinery credit at high-interest sources, and 58% of all their machinery credit was at high interest rates. Of these farmers, about 37% did not use any low-interest machinery credit. The conclusion that can be drawn is that farmers are using some high-interest credit to finance their operations and a much greater proportion of high-interest credit to finance their machinery.

Problems of credit availability

Analysis and review of the major sources of credit available to Ontario farmers has brought the Committee to two major conclusions. One involves the sources of credit and the other the borrowers.

Credit sources

Most of the practices used by agencies lending to farmers today are obsolete for providing the type of credit service required by a healthy agriculture. Farmers in the future, and many of them today, will require credit service that can provide them with all their credit needs, co-ordinated by one agency, with repayment geared to their income flow. Loans must be made on the basis of repayment capacity, with security a secondary factor.

Since no one credit agency is presently prepared to provide all the short-term, intermediate and long-term credit for farmers, there is no such thing as a 'one-stop' credit facility in Ontario. Such a facility would be of benefit in that the farmer and his lender could plan his farming activities.

Government agencies in particular are working under regulations that are inadequate to solve the problems of both small, low-income farmers and large, progressive farmers.

Too much credit is often given farmers who should be encouraged to leave the industry. Not enough credit is made available to some farmers who could use it effectively.

The purpose of The Farm Machinery Syndicates Credit Act is to improve the economic efficiency of farm mechanization by facilitating joint ownership and use of machinery and to provide credit to facilitate the purchase of machines on a joint-ownership basis. The Act is too restrictive and cumbersome in that three or more farmer members must be involved and accept joint liability on the promissory notes which form the primary security of the loan. **The Committee recommends that the minimum number of farmers should be lowered to two.**

Most credit agencies are not equipped to provide the credit counselling necessary or to assess the amounts of capital required on larger, properly-managed farms. In many instances these agencies cannot justify providing the counselling services and neither can the individual farmers. Public funds are necessary to provide such a service.

Inadequate accounts

A number of agencies are reluctant to provide credit to farmers because farmers have not provided them with sufficient information to make a sound financial judgment. Farmers are not accustomed to providing written information on their operations.

A farmer who applies for a loan should be expected to keep a detailed set of accounts relating to his business operation. Good commercial non-farm customers bring to the bank at least an audited balance sheet and a profit and loss statement.

In the case of most farmers, however, the lender himself has to obtain information by a lengthy process of questioning and then spend considerable time preparing the statements. Statements so prepared are frequently found to be incomplete and inaccurate, even where the customer's honesty and integrity are beyond question.

Lenders cannot be expected to be experts on all phases of a continuously changing industry such as agriculture. Without accurate information even the better agricultural lenders cannot conceive of what a farmer is doing. Accurate accounting systems are an essential part of an effective farm lending system.

Because of the inadequacies of lending institutions and the lack of sufficient information on most farms, an adequate credit service is not provided at present. In the short run some of the difficulties could be overcome through changes in present institutions, both at the farm and non-farm level.

A bold new approach to farm lending will be necessary to provide a programme to co-ordinate lending by the numerous sources so lenders have a better idea of what they are doing when extending credit to a farmer customer.

Objectives of a credit programme in Ontario

Adequate credit

Credit services for Ontario agriculture must have the following basic objectives:

1. Provision of a full line of credit co-ordinated by one agency to gear repayment schedules to available income flows.
2. Extension of credit based primarily on repayment capacity and secondarily on the security of the loan.
3. Loans to individual borrowers by public agencies fully independent of political influence.
4. Farm credit to compete with the non-agricultural areas of the economy at comparable interest rates.
5. Provision of professional farm credit counselling, to assist lenders and farmers to reduce risk and uncertainty in lending and borrowing and to assess the requirements of farmers.
6. Recognition, by both the credit institutions and farmers, that repayment of much of the borrowed capital is neither necessary nor feasible while farms are expanding.

Programmes to provide an adequate credit service

Financial management

Sincere efforts should be made by governments to provide the agricultural industry in Ontario with a 'one-stop', full line of credit. A credit counselling service should be provided immediately to both lenders and farmers. Any future system that will provide the types and amounts of credit required by a progressive farming industry will need such an advisory service.

Regardless of its merits, no credit system will function properly until the farmers take more responsibility for providing the type of information required in financial management. A counselling service could fill part but not all of this gap. Farmers should be offered an educational programme to assist them in this respect, and should be required to use a much-improved farm accounting system for record-keeping.

Chartered banks and other private lending agencies

Many of the faults of present lending organizations could and should be corrected – as stop-gap measures. However, no amount of improvement in each of the large number of agencies presently lending to farmers will ever solve the basic problem of scattered financing and unco-ordinated repayment schedules of each agency.

Chartered banks and similar institutions could be ideal sources of all the credit requirements for farmers. They have adequate financial facilities to service farmers and if farm loans were guaranteed and a counselling service provided by government, there appears to be no reason why they would not eventually find farm lending to be as profitable as many of their other lending operations.

In the near future however, these lenders will not be able to expand their operations and gain experience in farm lending rapidly enough to replace public agencies in making farm loans. Public agencies will therefore have to continue and even expand their operations.

Attention should be given to eliminating the duplication of services provided by the federal and provincial governments. These agencies are now operating competitively and the F.C.C. appears to be on a collision course with several provincial lending agencies. Farm lending should be placed in the hands of one agency rather than several. **The Committee recommends that the agency be under provincial administration.** Credit counsellors should work with this public agency and with banks to coordinate repayment schedules for different types of farms to approach as closely as possible the 'one-stop' financing concept.

One public agency – The Federal-Provincial Farm Credit Bank

The Farm Credit Corporation and the Ontario Junior Farmer Establishment Loan Board are providing almost identical services to Ontario farmers. There seems to be no reason why two agencies are necessary. Better co-ordination of farm lending and better use of field staff would be achieved if these agencies were replaced by a single agency. This agency should be run by the province under a federal-provincial agreement and be called the Federal-Provincial Farm Credit Bank. Appointments to its Board of Directors should be made by both federal and provincial governments. The Credit Bank should provide long-term financing only. Credit counsellors of the Ontario Department of Agriculture and Food must be responsible at the farm level for the co-ordination of long-term, intermediate and short-term credit. The counsellors, in their advice, should consider the repayment ability of the operator as well as the security of loans.

The Credit Bank should be able to provide a much more effective credit service to Ontario farmers.

At present, under the F.C.C. and the J.F.E.L.B. farmers who wish to increase their borrowing must pay off the original loan and refinance for the total required. This adds unnecessarily to the cost and difficulty of acquiring more capital as needed.

Legal procedures must be streamlined and simplified to allow the amounts of loans to be changed without complete refinancing, and to allow for faster and less expensive loan service. The responsibility for approving the great majority of loans should be left with credit counsellors or specialists, so that the time-consuming procedure of approving loans from a central office can be avoided. The current policy of having all loans considered by a Board has resulted in unnecessary slowness and rigidity.

The Credit Bank should continuously consider and recommend policy changes for all types of farm credit.

Chartered banks should be actively encouraged to make short and intermediate-term loans. This will require raising interest rates to normal levels, and drastic revision of loan limits and repayment schedules, along with government guarantees on the total loan package if approved by credit counsellors. Loan limits from both public and private agencies should be high enough so that properly managed, highly capitalized, medium-sized farms with one, two or three full-time workers have no difficulty in obtaining their credit requirements.

Credit counselling and farm management

The Extension Branch of the Ontario Department of Agriculture and Food should redirect its activities and place much more emphasis on the farm management functions of its field staff. If all agricultural representatives in the future are to become farm management specialists and spend their time in farm management teaching and advice, then these people are the logical providers of a credit counselling service. Indeed, one of the most basic and important functions of a farm management specialist is his advice in credit and financial management. **This Committee recommends that local farm management specialists assume the role of credit counsellors and that these local specialists be supported by credit specialists in the regional offices.** The regional credit specialist should be responsible for all aspects of the credit programme in his area. He would be available to assist the local farm management specialists and make decisions on large loans or specialized types of loans. The Committee expects that the regional credit specialist and the local farm management specialist will have to help farmers prepare credit programmes or approve such programmes. This will mean a substantially larger field staff for this work. We can see no alternative but to hire and train extra specialists as soon as the co-ordinated programme comes into effect.

Since present Farm Credit Corporation field staff in the province is skilled in both credit counselling and the broader aspects of farm management, these people should be integrated with Extension Branch personnel as local farm management specialists and regional credit specialists to provide as many people as possible for the total farm management programme in the province.

The Committee recommends that the loans approved by the credit specialist be guaranteed to the banks on the same basis as the Farm Improvement loans.

The Federal-Provincial agreement on credit should recognize the Federal and Provincial responsibility and interest in farm management and extension. It should provide for an equitable sharing of costs for staff and administration. This agreement would also allow for a joint discussion and acceptance of policy in this field.

Chapter 6: Land

Attitudes to land ownership

Land is one of the oldest forms of private property known to man. The laws and institutions surrounding land are deeply rooted in our past. Changes in these laws and institutions can neither be treated lightly nor undertaken easily.

Our society is built upon private property. In considering changes in the laws and institutions involving land, this fact cannot be ignored.

This does not suggest that all property must be privately owned. Increasing amounts of property, including land, are owned by public bodies in Ontario. A degree of public ownership can provide many advantages to the nation as a whole, while still allowing individuals to own property if they choose.

Nor does the Committee suggest that all the rights and obligations surrounding property ownership must remain unchanged through time. The needs of people change as economic and social conditions evolve. These changes often necessitate modifications in the rights and obligations of property owners.

We have observed that questions involving land ownership are often emotionally charged. Everyone has opinions about how land should be used and controlled. In our deliberations, we have tried to be as objective as possible. Our major concern has been to provide the greatest benefits possible to land users in the province.

Land ownership and social attitudes

The problems centring around ownership and control of land are complex. The institutions and attitudes of the past have played a role in determining today's system of ownership and control.

Present land ownership patterns in Ontario date from the late 18th and early 19th centuries. In those early years, land was in plentiful supply and could be purchased at a low price. Under these conditions, the ownership of land did not require the investments of large amounts of money. The economic restrictions on land ownership were small.

The legal and social advantages of settlement were extensive. The political development of Ontario was still in its infancy. The early settler could not be sure to what extent the government would allow him freedom of choice in determining how and where to live and work. Land holding was established on the basis of the English legal system, which provided that if a person owned property society guaranteed him a certain independence.

Ownership of land meant that a person had the right to pursue the life of his choosing. He could use his land in any way he chose to produce what he chose. Unless the owner agreed that someone else could use the land, the products from the land belonged to him.

Ownership of land provided people with security to pursue their own individual pattern of living. It meant that an owner and his family were protected against many kinds of coercion and intimidation which might be exercised by the government and other people in society.

Today, a very small group of people depend on land for earning their income. Many other institutions and structures independent of land have grown up to protect the individual against intimidation and coercion. Land and property ownership is no longer required as a guarantee of personal freedom.

We are not free from the influences of the past, however. Those historical factors which encouraged land ownership in the past have contributed to many of our attitudes towards land ownership and control today. Many still believe that land and property ownership are important guarantees of individual freedom, and that ownership is something that should be pursued in itself.

In the opinion of this Committee, the opposite is true in our modern society. Land and property ownership may restrict freedom in many respects. Freedom implies, among other things, that an individual and his family can choose an occupation, the place in which they live, the social and cultural conditions under which they live, with a minimum of restriction. The ownership of land and property often restricts the degree to which an individual and his family are free to make these choices. Many persons own land and property of a particular kind in a particular area. That ownership makes it difficult to make occupational and locational shifts which would provide economic, cultural, and social benefits to an individual and his family. Many people today are in a position where land and property ownership has virtually trapped them into their occupation and geographic location.

Our Committee does not suggest that there are no benefits to be derived from the ownership of land and property. Ownership still provides economic security to producers. It ensures that a producer can maintain a commitment of labour and capital on the land over a long period in the future. But ownership has some disadvantages as well. It involves holding large quantities of income over time in the form of land. It also decreases occupational and locational mobility of land owners.

Because of these disadvantages we have undertaken to examine other ways in which producers may obtain land.

The need for changes in rights of landowners

From time to time changes are required in the degree to which landowners are free to determine the terms and conditions under which land is used. Nothing prevents changes in the laws regarding control over land except the unwillingness of those who make the laws to change them. The laws respecting the rights of land ownership were created by men conscious of certain social and economic needs in their time. Conditions change, and changes may be needed in the laws respecting the rights of land ownership. The owners of land may need to give up some of their legal rights over land so the needs of others in society may be more readily taken into consideration.

Our Committee has come to the conclusion that certain presently existing conditions related to land ownership must be modified. The areas in which we see a need for change include the renting and leasing of land, and the regulation of land use.

In both cases, we have recommended changes which would place new obligations on landowners. We feel that the imposition of these obligations will be to the benefit of land users in particular, and to society in general.

Land tenure

Land purchases involve saving out of income

Land is an asset which is non-depreciating. This means that the purchaser of land can expect that he will be able to sell his land at the end of his farming career for at least the price he paid for it. If the land is properly used and cared for, its use for farm production does not deplete its value.

Money put into land thus makes up part of a farmer's savings, just as money put into savings bonds makes up part of his savings. By saving he reduces his present spendable income. Part of his present income is set aside and cannot be used to meet day-to-day living needs until some time in the future. The decision whether or not to save should depend mainly on whether or not money is needed now. If his current income and standard of living are not as high as for others in the society, his present savings for the future should not reduce his standard of living still further.

The burden of land purchases

The necessity of buying land has put heavy pressure on farmers to save. The trends in farm size and land prices in recent years have increased this pressure.

Average farm size has been moving along a continuous upward trend throughout this century. Since 1951, the total number of acres per farm has increased by 19%, while the number of improved acres per farm has increased by 33%. Pressures toward larger farms have been influenced by many factors. The major influence, however, has been that incomes of farm operators can only be maintained or increased if profit margins on land and capital are spread over larger quantities of inputs.

Rising prices for farm land have played a larger role than expanding farm size in forcing farmers to increase their savings in the form of land. Average figures for the province give some idea of the magnitude of the price changes that have been occurring even though differences exist in different areas of the province. Between 1941 and 1951, the average price per acre for agricultural land almost doubled. The average price has doubled again between 1951 and the present, meaning that there has been a four-fold increase in the price of farm land since 1941.

Renting and leasing of land

Increased land renting would reduce the degree to which land purchases decrease the spendable income of farm operators. When a farmer rents land, he does not devote his own income to the purchase. Rather, the income of the landlord is used to purchase the land.

The rent which the operator pays usually meets the landowner's costs of holding the land while also contributing a return to his investment. The landlord receives a further return on his investment in any capital gains which may occur.

The Committee has investigated the conditions under which land is rented for agricultural use in Ontario. Improvements in these conditions could make the renting of land a more attractive alternative than ownership.

The people involved

To obtain a clearer picture of the present situation respecting land rental in Ontario, the Committee undertook an examination of the nature and extent of farm land renting. A farmer referred to as a tenant is an operator who manages and operates his own enterprise, but who rents his land or his land and buildings. An owner-tenant is a farm operator who owns part of his land and buildings and who rents the remainder of these assets, but who manages and operates his own enterprise. A landlord is an individual who owns land being used in a farm operation which he himself does not operate.

Under some types of agreements, the landlord plays a role in the management of the farm operation. This role is usually reduced under cash rental systems.

The extent of farm renting

In 1966, 69% of the farm land in Ontario was operated by owners, 3% was operated by tenants, 27% by owner-tenants and 1% by managers.

The total amount of agricultural land rented in 1966 amounted to 12% of all the farm land in the province.

The renting of land is heavily concentrated in certain regions. For example, the eight counties in the most southerly part of western Ontario account for 27% of all farm land rented in the province while the northern region accounts for only 6%. The wide diversity in the importance of rented land is also indicated by the fact that the total proportion of rented land on a county basis varies from a low of 3% in Cochrane District to a high of 25% in York county.

A significant change has occurred in the land tenure situation in Ontario since 1921. The proportion of farm land operated by owners and managers has declined, while the percentage of land operated by the owner-tenant has increased. Owners operated 84% of the farm land in Ontario in 1921, 76% in 1941, 73% in 1961 and 69% in 1966. In contrast, the proportion operated by owner-tenants increased from 6% in 1921 to 12% in 1941 to nearly 23% in 1961 and to 27% in 1966.

Rents charged in Ontario

As could be expected, rents vary a great deal from county to county. In 1966 the average rent for the province as a whole was $11.65 per acre. For most counties, the normal range of rents was from $10 to $30 per acre. Differing uses of land often means that rents may be much higher than this normal range.

Rents for tillable land in the southern part of western Ontario were well above this normal range. In many counties, land used for vegetable production brought up to $100 per tillable acre. In Norfolk County, where payments for tobacco rights are included in rents, the average rent was nine times the provincial average. At the other extreme, rents in the Rainy River District were less than one-tenth the provincial average.

Private sources of rented land

The largest proportion of farm land rented in the province is privately owned. Under the present pattern, if a farmer wishes to rent additional land in his area, he must depend on private individuals and companies being willing to hold land as part of their investment portfolio. Some areas of southwestern Ontario are experiencing movements of non-farm capital into land. In most other areas of the province, however, there appears to be little increase in the amount of land owned by persons not themselves farming the land.

Public sources of rented land

The only public renting plan which exists at present is operated by A.R.D.A. under the Farm Enlargement and Consolidation Programme. This programme got under way late in the fall of 1966 and is still to a large extent in the experimental stage. Under this plan, A.R.D.A. purchases small farms and rents the land to nearby full-time farmers who require additional land to make their farms more viable.

The land is leased for a period of five years, with the tenant having the option of purchasing the land at any time during this period at the original capital cost or of renewing the lease for another period of five years. Approval may also be given for land improvement up to a maximum of $50 per cultivated acre. Funds approved for these purposes are added to the purchase price of the land and form part of the capital cost. The price of land purchased under this programme is restricted to a maximum of $100 per acre.

The rent charged consists of taxes and insurance premiums on any buildings in the first year and taxes, insurance and 3% interest on the capital in subsequent years. If the lease is renewed for another five-year period, the interest rate on capital is to be renegotiated by A.R.D.A. and the tenant.

The amount of land leased to farmers by A.R.D.A. as of November 1968 was 69,470 acres. A.R.D.A. is committed to purchase another 24,750 acres which will be leased as soon as the transactions are completed.

The largest quantities of land involved in this plan are in the northern and eastern parts of Ontario. Very little land has been taken up by A.R.D.A. in the more southerly areas of the province.

Types of rental agreements

Rents may be paid in two ways. Cash rents involve paying a previously agreed amount of cash as rent. Share and kind rents involve paying the landlord a certain share of production from the land.

About 55% of all rents reported in Ontario in 1966 were paid on a share and kind basis and 45% were paid in cash. Share or kind rents, however, are very heavily concentrated in only a small number of counties. Norfolk County accounts for 40% of total share rents paid in the province and Elgin, Essex and Kent Counties together account for another 31% of the total. In Norfolk County, a large proportion of the share rents paid constitute payments for tobacco rights made available jointly with the land. In terms of the number of farms in the province reporting any rent, cash rents were much more important than rents on a share or kind basis. Cash rents were reported by 84% of all farms reporting any rent, while only 16% reported any rent on a share or kind basis.

The usual procedure in all share leasing arrangements is for the landlord and the tenant to divide the income between them in proportion to their respective contributions to the farm business. The following are the most common types of share leases:

1. One-third, two-thirds crop-share lease:

The landlord supplies land, buildings, fences, plus materials for repair of buildings and fences and pays taxes and insurance.

The tenant provides power and machinery, does all the work and pays all the operating expenses. The landlord receives one-third of the product from the farm.

2. Fifty-fifty crop-share lease:

This type of agreement is usual when the landlord pays some costs in addition to land, such as part or all of the seed, fertilizer or harvesting costs. Under this type of agreement the landlord and the tenant each receive one-half of the product.

3. Crop-share cash lease:

This type of lease is basically the same as a crop-share lease, but in addition to receiving a share of the crop produced the landlord also receives a cash rent. Provisions for additional cash rent under a crop-share lease may be made in cases where the landlord provides buildings for a tenant who farms a considerable amount of land or in cases where the owner provides an unusual investment in buildings and equipment for livestock enterprises in which he does not share.

Risks and responsibilities

The basic difference between cash and share rents centres around the risks and responsibilities involved on the part of the landlord and the tenant.

The cash lease assures the landlord of a steady and fixed income. He does not carry the risk associated with a bad crop year, nor does he get any of the extra gains from an exceptional year. Under these conditions, his interest in the actual management of the farm is likely to be small.

Under a cash lease, the operator assumes the responsibility for managing the farm and bears all the risks. This means he bears the full burden of the losses in a bad crop year, but in return he has full claim to the gains in a good year.

The cash lease provides a farm operator with a great deal more flexibility than a share lease. The operator is usually permitted complete independence from the landlord in making his management decisions.

The major disadvantage of a cash lease from the point of view of an operator is the fact that he has a fixed financial obligation which must be met regardless of how the crop turns out. In a poor year, this can reduce his income. The extensive availability of crop insurance in Ontario has made it possible for an operator to insure against losses in a poor year. Insurance can be carried on most crops to ensure that the rent can be paid without creating a financial burden. As a result, cash leases are now the most desirable method for renting land.

The availability of crop insurance is likely to cause the cash rental system to increase in importance. As it does so, the role of landlords in the management of rented farms is likely to decrease significantly.

Under a crop-share agreement, the risks and responsibilities are more evenly shared by the landlord and the operator. Consequently, the profits from the farming operation are also more evenly shared. This type of agreement encourages the landlord to make improvements in the land and the farm, since he will get some of the benefits of increased production from these improvements. Since under a crop-share agreement the landlord does get a share in the profits of the farm, he is likely to want to participate in some of the management decisions.

A desirable renting pattern

It is the opinion of the Committee that a certain type of land renting pattern would be beneficial to farmers. It would relieve the pressure on farmers to sacrifice present income and decent living standards to obtain the land to farm.

The Committee would like to see a pattern developed in which farmers own a basic unit and rent the extra land needed to expand the farm into the full size desired. Consider the example of a farmer operating a mixed enterprise with 175 acres of tillable land. If this land is priced at $200 per acre, it is suggested that he own 100 acres of this land and rent the other 75 acres. This would reduce by $15,000 the amount of income which the farmer would have to sacrifice over his farming lifetime to obtain the use of this amount of land. Assuming he would pay for the land over a twenty-year period if he purchased it, rental would increase his average spendable income over that twenty-year period by $750 per year on the basis of a rent charge equal to interest on investment.

The Committee has noted an encouraging trend in this direction. In 1921, only 6% of the farm land in Ontario was operated by farmers owning part of their land and renting the other part. By 1941, this proportion had risen to 12% and by 1966 it had risen to 27%. However, this still involves only a small amount of rented land. A further increase in this trend would be desirable.

The difficulties with renting

At the present time, most farmers in Ontario do not look upon land renting as a particularly desirable alternative to land ownership. The Committee had little difficulty in discovering the reasons for this. The terms and conditions of leases for farm land are highly restrictive from the point of view of the tenant. A farmer who rents land possesses very little social or economic security. The practices of credit agencies make it extremely difficult for a tenant to obtain farm credit. Furthermore, the relatively small amount of land available for renting puts a tenant in a weak bargaining position relative to landlords. Landlords have little difficulty in finding other tenants if the present tenant holds out for improved terms and conditions in his lease. In addition, when a farmer wishes to extend his farm acreage by renting land, he often finds that there is no land available for renting in his area.

A charge often levelled at farmers is that they are preoccupied with the need to own the land they farm. In the opinion of the Committee, this is often used as an excuse to justify the lack of programmes to improve the lot of a farmer who rents land. The reasons farmers do not like to rent land are not primarily psychological ones. They can be traced to economic and social factors which presently make rental an undesirable method of obtaining farm land.

To a certain extent, farmers may prefer ownership in order to obtain capital gains from land. However, the capital gains in land have not been as extensive as for other investments involving comparable risks. Since 1959, average land values in Ontario have increased by approximately 25%. Most land which is likely to remain in agricultural production in the future has increased in value by much less than this. By comparison, the prices of common stocks have increased by 80%. Mutual funds, which are more comparable to farm land in terms of risk and portfolio management requirements, have provided capital gains of over 40% in the same period. It appears unlikely that capital gains have provided most farm operators during the 1960's with a major incentive to invest in land. See Figure 11.

Lack of security and certainty in farm renting

The farmer who rents land faces such uncertainties that it is extremely difficult for him to employ his own labour and large amounts of his machinery and equipment on rented land. Like anyone else, a farmer needs the opportunities to make plans for a reasonable period of time in the future. Present conditions under which farm land is rented offer him few such opportunities, since a farmer renting land has little certainty about his future on that land.

Most rental agreements in Ontario cover only one year, sometimes only a single crop; virtually none extend beyond a five-year period. Furthermore, a large majority of rental agreements in the province are not in written form. They take the form of a verbal understanding between the tenant and the landlord. Moreover, very few leases make provision for the landlord to pay the tenant at the time of termination of the lease for improvements the tenant has made to the farm.

These conditions make the position of a farmer who rents land extremely difficult. Since he has little idea of how much further into the future his lease will be continued, it is very risky indeed for him to invest in the thousands of dollars worth of equipment needed to farm the land. If he requires the rented land to operate a farm which can provide him with sufficient income to maintain himself and his family, the possibility of his lease not being extended continuously threatens him with the possibility of having to move his family from the community in the near future in search of new land or a new job.

The fact that there is no agreement to pay the farmer for improvements made to the land if the lease is terminated discourages farmers from making improvements in the land. They will not, for instance, be particularly interested in farm practices and investments which conserve and up-grade the land, since it takes a long period of time to implement and obtain the full benefits.

Methods of increasing certainty and security

The basic approach toward making the position of a farmer who rents land more secure must involve improving the terms and conditions of farm leases. Leases must be changed to extend over longer periods of time, and they must give farmers a better indication of when they are to be terminated.

Our Committee has looked into various kinds of leasing arrangements which would bring about these changes. The most important change would be to encourage a much greater use of written leases, which include the minimum period over which the lease extends.

Farmers and landlords must be encouraged to establish minimum periods for leases which are consistent with the type of farming involved. The period of the lease should correspond to the period of time over which capital invested in the operation can be expected to pay for itself. The minimum period for any type of farming should be five years. For farm operations which involve less rapidly depreciating buildings and equipment owned by the operator, this period should be extended. If such minimum periods are established for leases, a farm operator will obtain reasonable assurance that he can at least pay off his capital invested in the operation before his right to operate the land can be taken away.

Leases should provide for re-negotiation of rental rates at least every two years. For cases in which agreement cannot be reached in these negotiations, the government should provide a means of introducing compulsory and binding arbitration by a third party.

Most farm investment is spaced out over a number of years. If a farmer is to achieve a balance over time in his investment in machinery and equipment, he needs constant information about his future on the land he is farming. A revolving lease can provide this kind of information.

Under a revolving lease, the minimum period for notice of termination of the lease is equal to the term of the lease. At the end of each year, if notice of termination of the lease is not given, the lease is automatically renewed for a further full period equal to the term of the original lease. Under a revolving lease with a five-year term, a farm operator renting land must have a five year notice that his lease is to be terminated. At the end of each year, if he has not received notice of termination from the landlord, he is then assured that he will have an extension of his lease for another five years.

On the other hand, the tenant would also have obligations under the lease. He would have to notify the landlord if he wished to stop farming the land before termination of the lease and would be responsible for finding another tenant that met with the landlord's approval.

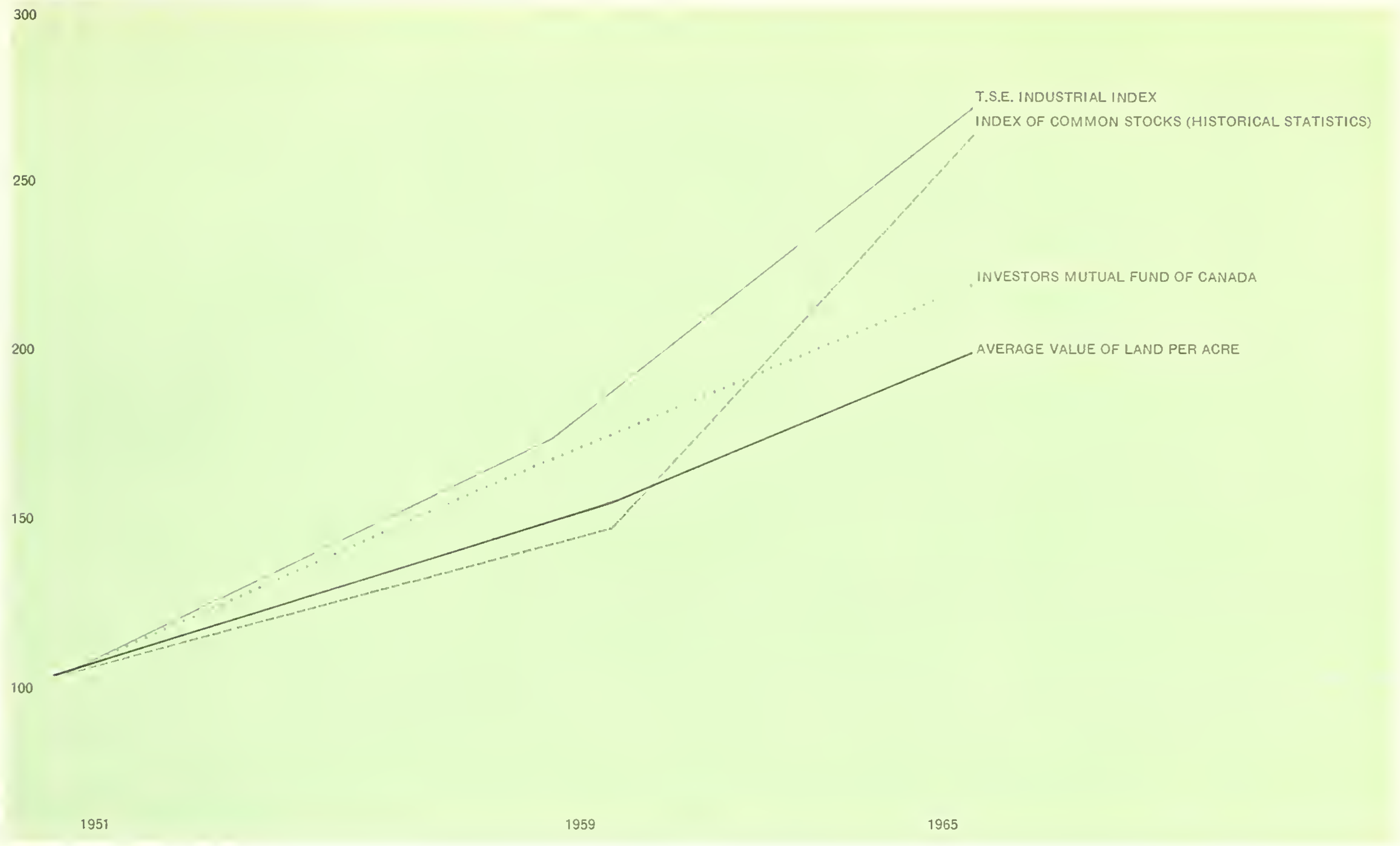
The Committee firmly believes that both the landlord and the farm operator have a great deal to gain if leases make provision to pay a farm operator for improvements which he has made to rented land, and which are not used up when a lease is terminated. With such an arrangement one area of difficulty would be that of reaching agreement on the remaining value of these improvements. It is recommended that the government establish some means for compulsory arbitration which is binding on both parties where voluntary agreement cannot be reached.

There is a difficulty with leasing arrangements intended to increase the security of the farm operator who rents land to farm. Some landlords who are holding land for speculative purposes may prefer not to rent land at all rather than accept a long term lease. A number of programmes have been considered by the Committee to avoid this problem.

It is recommended that for all settled regions of the province land use plans be drawn up indicating the use to which land can be put, and that these plans be given legal status through land use regulations. Land which is zoned for agriculture would then not be held out of agricultural production by a landlord since farming would be the only use to which the land could be put.

FIGURE 11

PRICE INDICES FOR THE VALUE OF LAND PER ACRE, THE VALUE OF COMMON STOCKS AND INVESTORS MUTUAL FUND



For land which is eventually intended for non-agricultural use, dates could be set when the land could be transferred to another use, and terms of leases could be set to correspond with these dates.

Landlords must also recognize the gains they will realize where improved terms and conditions are granted to farmers who rent land. Greater security will encourage tenants to plan for a longer period in the future and to apply better farming methods to the land. Where rents are paid through a crop-sharing programme, landlords will benefit directly from the increased productivity. Under the cash rental system, the landlord does not gain immediately. However, the programmes of better soil management and conservation implemented by the operator will provide a long term benefit to the landowner.

How can improved terms be implemented?

Aside from government ownership of land, there are three methods of introducing the kinds of improvement suggested. These are educational programmes, legislation, and indirect programmes which require long term leases if farm products are to be marketed.

Educational programmes

Educational programmes must largely involve attempts to make landlords realize that they, as well as tenants, benefit if the latter are given greater security of tenure. A major task of any educational programme must be to convince landlords and tenants to include in their leases clauses for payment to the tenant for unexhausted improvements existing at time of termination of leases. This would make it possible for the tenant to provide at least part of the improvement capital.

The educational activities could also include the provision of model rental agreements and expert advice on renting.

The responsibility for these educational programmes falls largely to two groups. A much larger role could be played by the Ontario Department of Agriculture and Food. **Our Committee recommends that the Department of Agriculture and Food prepare a special bulletin giving aid and direction to those renting land.** This would cover types of contracts, procedures to be followed in drawing up contracts, and general information on leasing and renting.

The only other group likely to undertake educational programmes would be the farm organizations. A new general farm organization should play a major role here.

Legislation – A Farmland Rental Act

Some of the suggested improvements in leasing arrangements should be brought about through legislation. For example, it is possible to legislate that all agreements must be written, that leases must be signed for a specified number of years, and that a minimum notice period is required for termination. It is also possible to require by law that compensation be paid to a farm operator who makes improvements to land or buildings which are rented, and which are not yet used up when the lease is terminated.

The legislation should also provide for arbitration in cases where disputes arise between a tenant and a landlord. The three major areas requiring arbitration would be when disputes arise over rents to be charged when long term leases are in effect, where disputes arise regarding compensation to tenants for unexhausted improvements to land and buildings at the time of the termination of the lease, and where tenants wish to stop farming operations before the lease expires.

Legislation to the above effect should be introduced as soon as possible. Sections of this legislation should be proclaimed over a five-year period to allow time for both landlords and tenants to adjust to the new requirements.

It must be recognized that legislation cannot ensure that landowners will rent to farmers where future alternate uses of the land exist. In many areas within the rural-urban fringe, landowners might prefer not to rent to farmers at all, rather than sign long term leases. For this reason, lease periods required by law must not be too long. In addition, effective land use planning and regulation must be introduced at the same time as legislation covering rental agreements for farm land.

Indirect programmes

Some marketing agencies have the power to establish the conditions under which farmers are permitted to market farm products. **Our Committee recommends that marketing agencies encourage producers who rent land and buildings to hold long term leases.** This would provide economic incentive to both operators and landlords to establish minimum periods on leases. These periods should be based on the type of production involved.

Credit agencies could also make longer term leases a requirement for granting credit.

Programmes of this nature could be introduced before legislation on leasing becomes completely effective. They would encourage the adjustments needed if the legislation is to cause as little disruption as possible.

Quantity of land for renting

When a farmer wishes to extend his farm acreage through renting, there is often no land available for rental in his area. We have investigated ways in which the amount of acreage available for renting could be increased.

At the present time, very few individuals or organizations with large investment portfolios include farm land in their holdings. A relatively low risk investment such as land could provide diversification to such portfolios. In view of this, farm organizations should undertake advertising programmes designed to encourage non-farm people and institutions to purchase farm land and make it available for renting.

Public agencies need to play an increasing role in the renting of farm land. A government operated or supported agency should begin a programme of farm land purchasing throughout the province, offering the land to farmers on a rental basis. Such an agency should pursue leasing practices which give farmers the security of tenure they require.

It is recommended that the A.R.D.A. Farm Enlargement and Consolidation Programme be expanded in the immediate future. Land purchases should be undertaken in significant quantities in all parts of the province. The present restriction, by which land priced at over $100 per acre cannot be purchased, must be lifted.

Land purchases must continue to emphasize the need for adjustment of labour out of farming. This can be combined with the need for more land for rental purposes in all areas of the province. A revised A.R.D.A. programme must not put emphasis on the need to sell the land to the tenant. Operators should be encouraged to rent land indefinitely from A.R.D.A. if they so desire.

An Ontario Land Corporation

If the A.R.D.A. programme is not extended to meet these requirements, the provincial government should establish an Ontario Land Corporation on a cost-sharing basis with the Federal Government. Most of the land purchasing programmes of the Ontario Government could be centralized under this Corporation.

The Corporation could undertake the present A.R.D.A. land consolidation programme. It would extend such a programme to all areas of the province, regardless of land values. Land purchased should be leased to qualified farmers under long term leasing agreements.

The Corporation should actively engage in helping farmers assemble land into easily operated blocks. To do this, it could exchange land with farmers to meet their needs.

The Corporation must follow a policy consistent with the need for overall adjustment of resources in agriculture. It should encourage a movement of labour out of agriculture and ensure that land is made available to farmers only if they are capable of earning adequate resource returns.

Unlike present land consolidation policies under A.R.D.A., if land is sold by the Ontario Land Corporation, it should be sold at current market prices and capital gains should accrue to the Corporation.

The Corporation would also purchase land which may eventually be transferred to non-farm uses. It could ensure that such land is made available to farmers in the meantime under adequate leasing terms until the time is reached for transferring the land to a different use. This policy would operate within the framework of long term land use plans.

Large scale financing would be required to enable the Corporation to undertake extensive land purchases. Our Committee fully recognizes the difficulty the provincial government faces at present in raising finances. The Corporation should receive some of its capitalization from the Federal Government, since it would be undertaking some programmes which are presently the responsibility of that government. The remainder of its finances

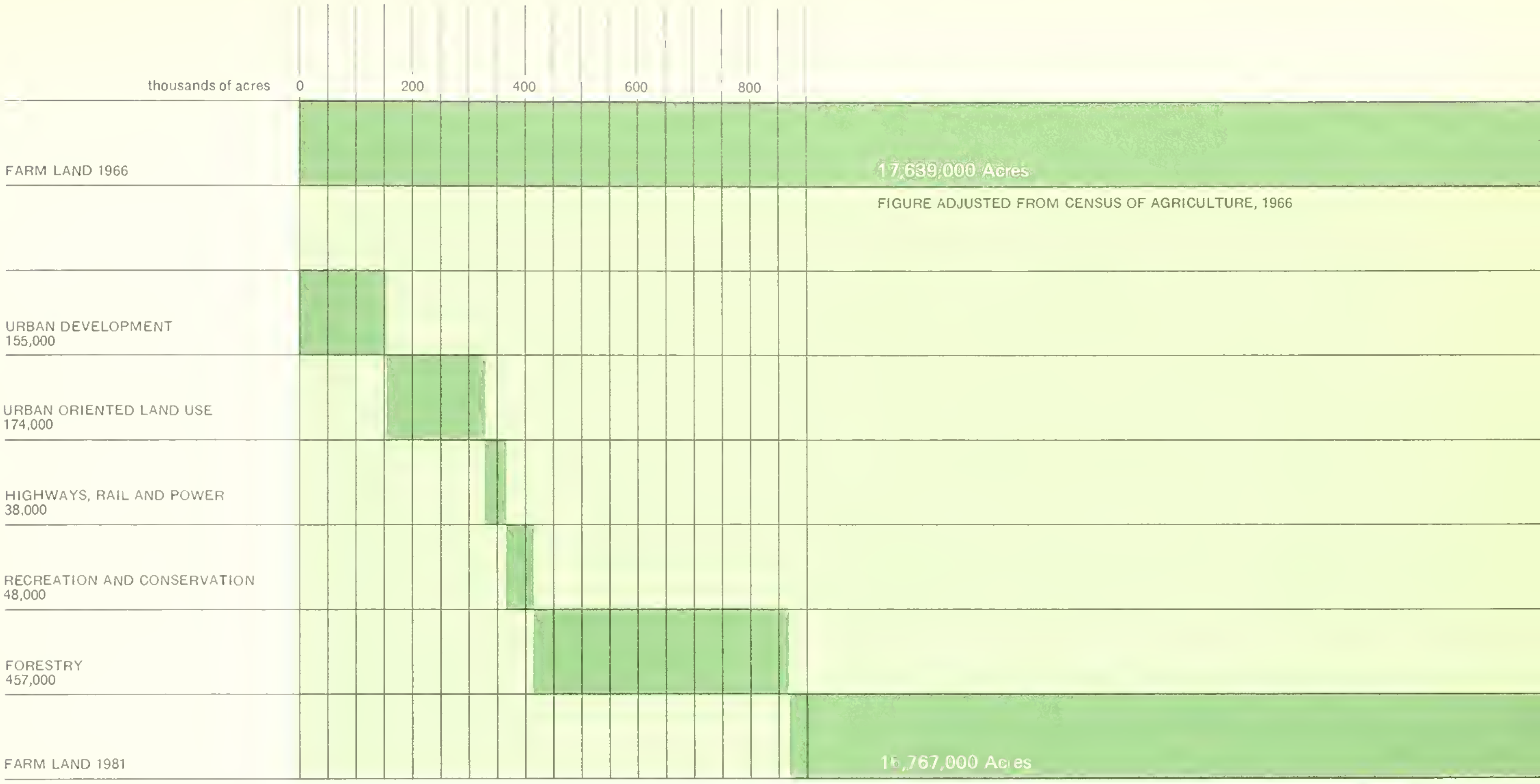


FIGURE 12

PROJECTED
LOSS OF FARM LAND
TO
OTHER LAND USES

ONTARIO AGRICULTURE
1966-81
(rounded to 000)

could be raised through sales of bonds and shares. It would be holding land as an asset to back the bond and share issues. Interest and dividends would be paid out of rent payments and capital gains it might realize in transactions involving sales of land.

Land use planning and regulation

The amount of land used for urban and industrial purposes is small relative to the total quantity of land available in settled regions of the province. Ontario currently has 17.6 million acres of farm land. Less than 1% of this land will be required for urban and urban-oriented development over the next decade. See Figure 12. A much larger quantity of land than this could be released from farming without affecting total production. In fact, with current techniques of production, present agricultural output in Ontario could be produced with less than one-half of the present farm land, if all of this land were fully employed.

In certain areas of the province, non-agricultural land uses have significantly affected farm land availability and prices. Urban and industrial uses of land have been developing in many parts of southwestern Ontario. This is an area of the province where much of the land is highly productive for agricultural uses. Farmers in this area have been affected by rapidly rising land prices, higher taxes and increased purchasing of land by developers and speculators.

The major land use problems in Ontario involve regional and local patterns of land use. The problems do not arise out of a provincial shortage of land. Rather they result from the fact that there are many competing uses for land in relatively small areas of the province, while in other areas there are only limited opportunities for using land productively.

The strong competition for land is largely concentrated in areas south of Georgian Bay. This is the area in which most industrial land users wish to locate. This tendency has had a number of important effects on landowners and people in general.

Rising land prices and increased taxes

One significant result of the present pattern of land use in Ontario has been rapidly rising land prices in the southwest. The prices established for land sites which have potential industrial or urban uses have been high relative to value for farm use. A large amount of land has become unreasonably priced for residential uses as well.

These high land prices have been both a blessing and a curse for farmers. The growing demand for urban and industrial uses has given large potential and realized capital gains to farmers who already own their land. On the other hand, new farmers or farmers wishing to expand their acreage through land purchases find high prices making it almost impossible to obtain land in the urban fringes.

High land prices have also meant that farmers in these areas

carry a heavy tax burden. Even when assessed at present use value, assessments have been higher in areas where land prices are inflated by non-farm demand for land. The tax rates are generally higher in such areas to provide municipal investments required to meet the needs of new residential and industrial land users.

Renting by land developers

A great deal of land is purchased by land developers who base their purchases on possible future uses of the land. The result is that not all of the land purchased by land developers is slated for immediate removal from farming.

Land developers and speculators who own land not to be immediately transferred out of farming generally rent this land back to farmers. From the farmer's point of view this usually turns out to be a highly unsatisfactory arrangement. Developers and speculators are not willing to grant long term leases because of their hope that higher value non-farm uses for the land will develop in the near future. Nor are they interested in making improvements to the land which would increase its ability to produce agricultural products, since they do not see any long term agricultural future for the land.

In actual fact, there is often a long period between the time a developer or speculator obtains land and the date at which it is transferred out of farming. The result is that in the rural-urban fringe areas, there are a large number of farmers renting land over long periods of time under leasing conditions so restrictive that they are not able to undertake the planning and investment necessary to earn adequate incomes.

Industrial and residential development in local areas

Until now, there has been a notable lack of order and planning in the development of non-farm land use in rural areas. The result has been that industrial users of land have been setting up factories and commercial activities in the midst of productive farming communities. Thus, residences and residential subdivisions are dispersed throughout a community in a way that does not take into account the concerns and interests of the farmers of the area.

Unplanned physical dissection of local communities is not always welcomed by local residents. Most communities have not taken the action necessary to introduce a more orderly pattern of development since such restrictions might drive away new factories.

Regional pattern of development

Most new industries in Ontario have been developing in the southwestern region of the province. The greatest concentration is in the Golden Horseshoe around the western end of Lake Ontario.

The reasons for this pattern of development are varied. Most of the population is concentrated in this region, creating an available supply of labour. Transportation and communication systems are well developed and service and other industries are well established in the region. All of these factors tend to provide economic incentive for further industrial development.

The result of this regional pattern of development has been that both new job opportunities and new uses for land have been created within a fairly small region of the province. In other regions, there has been little demand for land for industrial uses and limited creation of new job opportunities.

Costs of industrial development

New industrial development in a community thus imposes costs on residents. As new industries develop, municipalities must provide facilities to meet the needs of both the new commercial and the residential land users.

Roads, sidewalks, and water and sewage systems must be constructed. Medical, welfare and educational services must be established. If such services and facilities are to be available to new land users prior to their arrival in the community, much of the cost is likely to be met out of higher taxes for established residents. Tax-free incentives offered by municipalities to industries are also an added burden to these residents.

Haphazard planning in rural areas, particularly the proliferation of ten-acre residential lots, has created problems. Complaints have been made by these lot holders regarding pollution by adjacent farms. The Committee feels that there was no justification for the establishment of these lots and does not feel that the people now owning them have any legitimate demands to make on farmers.

Land users in rural communities often impose additional indirect costs on residents. Many industries drawn to rural municipalities are of a type which produce extensive quantities of wastes and by-products. Urban communities require such industries to install costly disposal systems to prevent such products from giving rise to air, water, and land pollution. This is not usually the case in rural municipalities, where land use control is often very limited or absent altogether.

Pollution is costly in both economic and social terms. Air and water pollution can cause considerable damage to crops. If land used for dumping wastes adjoins farm land, this can also affect crops and land productivity. Pollution creates social problems and destroys community recreational spots. Land used for the dumping of industrial wastes is unsightly. Polluted air can create considerable discomfort and even personal injury to residents of an area.

Effects of land use planning and regulation

Land use planning introduces greater certainty regarding future uses to which land can be put. This controls undue speculation in agricultural land not required for non-farm uses, preventing the exorbitant inflation of land prices.

With much of the speculation in land ownership removed, farmers can make better informal, long term decisions regarding investment in machinery, equipment and buildings. If land is designated for farm use, farmers will know that long term investment in farm capital on that land is sound. In cases where land is eventually to be developed, land use plans would indicate approximate dates for future development. This would give an indication to farmers of the period of time over which they can plan on committing farm capital to the land.

Land use planning would encourage longer term leasing of farm land in the rural-urban fringes, since landlords have a clearer knowledge of when the land is to be developed. This would permit tenants in such areas to make sounder investment decisions.

Land use planning must take place at both local and provincial levels. If the overall pattern of land use is determined at the provincial level, it can be used as one instrument for encouraging an improved pattern of regional economic development. Land availability for industrial uses could be somewhat restricted in the already over-developed regions of the province, and new industrial development encouraged in other regions where it is currently lacking.

Land use planning should involve public decision-making. Provisions should be made for people in local municipalities to participate in planning decisions affecting them. There must be full public disclosure and discussions at all stages of planning.

Land use planning in Ontario at present

There is a good deal of legislation at the provincial level to plan and regulate the development of land through various programmes. The two principal acts concerning the regulation of land use are the Planning Act and the Public Lands Act.

The Public Lands Act is the principal means of regulating the use and disposal of lands under the ownership of the Crown in Ontario. This act is administered by the Department of Lands and Forests acting upon the advice of various special committees. The Crown presently owns little land used for agriculture. The role of the statutory powers of the Public Lands Act is only likely to affect the agricultural industry in cases where new land is made available for agricultural production from the existing stock of Crown Lands.

The Planning Act contains powers for the planning and regulation of the use of land in organized and unorganized regions of Ontario. The act is structured to provide a basis for the control of land use. Within the act, provisions are made for the following activities:

1. The drawing up of official land use plans. These are to involve a policy for designating geographical areas in such a way as to secure the health, safety, convenience, and welfare of the inhabitants, having regard to the existing land uses, drainage, communications, and public services within the area.

2. The enactment of legislation in the form of municipal by-laws to implement an official plan. There are three kinds of by-laws involved. Land use by-laws control the form and extent of particular land uses without geographically indicating where they are permitted to take place. Zoning by-laws designate the actual areas of permitted use. Subdivision control by-laws refer to the restriction of land division except by plan of subdivision or consent by planning boards.

3. The establishment of Committees of Adjustment, which can make provisions to permit the use and development of land within a planning area which are at variance with the official plan.

The primary responsibility for land use planning rests with local municipalities. Under the Planning Act, a geographical area may be designated as a Planning Area, but only if it is proposed as one by a municipality. Once a Planning Area is proposed and meets the approval of the Minister of Municipal Affairs, a Planning Board may be appointed which will carry out the formulation and implementation of an official development plan. The Minister of Municipal Affairs is responsible for the administration of the Planning Act, but at present the involvement of his department in land planning is largely advisory.

Land use plans must meet with the approval of the Department of Municipal Affairs. Municipal by-laws regarding the regulation of land use must be approved at the provincial level by the Ontario Municipal Board. By these means the provincial government can influence the formulation of land use plans and controls at the municipal (local) level. However, existing government machinery has no formal provision for relating land use requirements and development needs on a province-wide basis.

Groups of municipalities can bring their planning boards together to form Joint Planning Boards. These Boards co-ordinate the land use plans and regulations of participating municipalities. As they presently exist, however, they do not provide integrated planning on a regional or provincial basis. The most that Joint Planning Boards can do is to provide integrated planning for a slightly larger local area.

Until now, most of the legislation and many of the institutions in Ontario for the planning and regulation of land use have been in urban and metropolitan areas. Very little has been done in rural communities.

This system of land use planning and regulation creates many difficulties. Many municipalities have not introduced any provisions for land use regulation. Other municipalities compete for industrial development by offering as few restrictions as possible on land use. Local residents of such municipalities bear the costs of these policies. Other municipalities are prevented from undertaking the planning and regulation they desire for fear of losing future industrial development. The result of these inter-acting forces is an almost complete lack of planning and regulation of land use in rural areas.

The haphazard and piecemeal system under which land use planning presently takes place means that it plays no role in the primitive regional development planning that presently exists at the provincial level. All these difficulties must be removed before land use planning and regulation in Ontario can be made socially and economically useful on a province-wide basis.

Present organization of planning boards

In 1967, there were 397 Planning Boards operating in Ontario. Approximately 445 or 48% of the municipalities had no provisions for land use planning.

Out of the 397 Planning Boards, only 44 reported having full-time technical planning staff. 183 had made use of consultants from time to time, and the remainder reported neither full-time nor part-time trained staff.

The composition of a Planning Board includes one representative of a municipal council as an ex-officio member and four to eight members of the Board who are not employees of the muncipality or of local boards. From a survey conducted by the

Department of Municipal Affairs in 1966, the distribution of members of the Planning Boards in Ontario, by occupation, revealed the following categories of members: 24% businessmen, 21% farmers, and 55% in other occupations. The farming community is well represented on Planning Boards.

Need for changes

In the opinion of this Committee, land use planning and regulation is not being done in Ontario in such a way as to be beneficial to the farmers of the province or to the majority of the population. Most effective planning and regulation is presently done in urban and metropolitan areas. This means that plans and regulations are largely drawn up for the benefit of urban land users. This has many adverse effects for farmers and rural people.

Land use planning and regulation could be introduced into rural areas in such a way as to provide great benefits to rural people. To do this, major changes are needed in present legislative and institutional structures. The Committee undertook a broad investigation of land use planning and regulation to make some constructive proposals for these changes.

Basis of effective land use planning

Any system of land use planning must result in a comprehensive and integrated plan which covers all settled municipalities in the province. In the more lightly settled areas, planning can be less detailed and intensive than is required in the more heavily settled areas.

A province-wide system of land use planning needs a base upon which to build. A broad pattern must be established regarding the kind of economic and social activities the people of the province wish to have carried on in various regions. Thus, a comprehensive plan must be developed to take into account the desired regional pattern of economic and social development before land use planning can begin in earnest.

A plan for regional, social and economic development

The present pattern of economic development in the province tends to direct industries and people to large urban centres. The largest concentration is in the Golden Horseshoe around the western end of Lake Ontario.

The reasons for this are largely based on the economic decisions of individual industrialists. The costs of this trend to Ontario people have become more obvious in recent years. Large areas like Metropolitan Toronto are experiencing difficulties with air pollution, inadequate transportation facilities and over-crowding along with serious shortages of housing and public services. Questions arise regarding the quality of life offered in large centres where families are raised in high-rise apartments crowded into small neighbourhoods.

The difficulties arising out of our present pattern of development are not limited to the urban areas into which people and industries are crowding. The lack of general industrial development in our rural regions means a lack of job opportunities. Low income farm people have little opportunity to obtain alternate employment without moving to large urban centres. Most do not find this an attractive choice. Some low income rural and farm people finally make the shift to urban areas out of sheer desperation. Others cannot face such a move, and resign themselves to their very serious situation.

Since in each region a number of rural and farm people make the decision to move to the large urban and industrial areas each year, the population of these regions constantly falls. This makes it more and more expensive for those remaining to maintain the public and social services they need. Generally the quality of the schools and other social services falls as a result.

If anything is to be done for the low incomes of farm and rural people, there must be adequate job opportunities in our rural areas. Not everyone presently in farming can earn an adequate income on the farm. Their major hope lies in other jobs in their area from which they can earn a living. Unless the present pattern of industrial development in Ontario is changed, such jobs will never be created.

The situation is urgent. In the opinion of this Committee, the Government of Ontario must immediately begin a serious programme to re-direct the pattern of industrial development in the province. Such a programme requires planning. A number of specific centres for future industrial growth in the rural regions of the province must be designated. A commitment must be made to undertake the public investment necessary to develop such areas. These centres must be adequate in number so that farm people seeking non-farm work do not have to undergo extensive locational movements. They must be located in such a way that the needs of people employed in them are considered. Many of these people will come from families who will be willing to leave farming if they do not need to undergo costly shifts to the present large urban centres.

Land use planning is one important part of this process. It can be used as one means of restricting industrial development in the already overcrowded regions of the province, and of encouraging development in other regions. It must be emphasized that land use planning can never do this alone. It is at most a secondary means of influencing development. It can only be done effectively in conjunction with a total programme of social and economic development.

Land use planning is not concerned just with the geographic features of land. Nor is it concerned only with the economic needs of individual land users. Land use planning is concerned with the needs of people as much as it is concerned with the physical land needs of industries. People have social, recreational economic and cultural needs. People do not live in isolation. People live in communities and in provinces. The needs and desires of all people in a community or a province must be considered if land use planning is to accomplish its purpose.

What can be done?

Some individual municipalities in Ontario are making some efforts to undertake land use planning. This is not sufficient, however. The present piecemeal approach cannot work. Land use planning must be extended and co-ordinated at the regional and provincial level.

At the present time, land use planning and regulation in Ontario has reached a state of chaos. Municipalities act independently of each other and without adequate consideration of the effects of their plans on other regions and areas. Many municipalities have no plans at all, and others that have plans make no effort to see that they are implemented.

Regional Development Boards

This Committee recommends that the Provincial Government take responsibility for ensuring that comprehensive land use planning is immediately undertaken.

Regional Development Boards could be organized for the planning of economic development and land use for specific geographic areas of the province and they would replace the Regional Development Councils. The Regional Development Boards' responsibilities would be much greater than those of the Regional Development Councils which presently exist.

The Regional Development Boards would consist of representatives of local municipal councils as well as a limited number of appointments made by the provincial government. Financing of the Regional Development Boards should be shared by the provincial government and the municipalities.

The regional jurisdiction of these Boards should at least be at the county level, and would ideally include groups of counties. The Boards would assume responsibility for drawing up plans for the economic and social development of their regions, as well as for drawing up land use plans.

Where land use plans now exist for municipalities, the Regional Development Boards would assume responsibility for co-ordinating these plans with other plans in the region. The Boards would also assume responsibility for making any future changes in these plans. If municipalities within a particular Board's jurisdiction do not have land use plans, the Board would assume responsibility for developing them.

The Regional Development Boards would be established by legislation. The plans they draw up must be made consistent both with an overall plan of regional economic development for the province, and with the needs of the local communities involved.

The Boards themselves must function as policy recommending bodies. They would have in their employment a staff of adequately trained people to carry out their technical tasks.

The Regional Development Boards would function most effectively if they operated within a regional government structure.

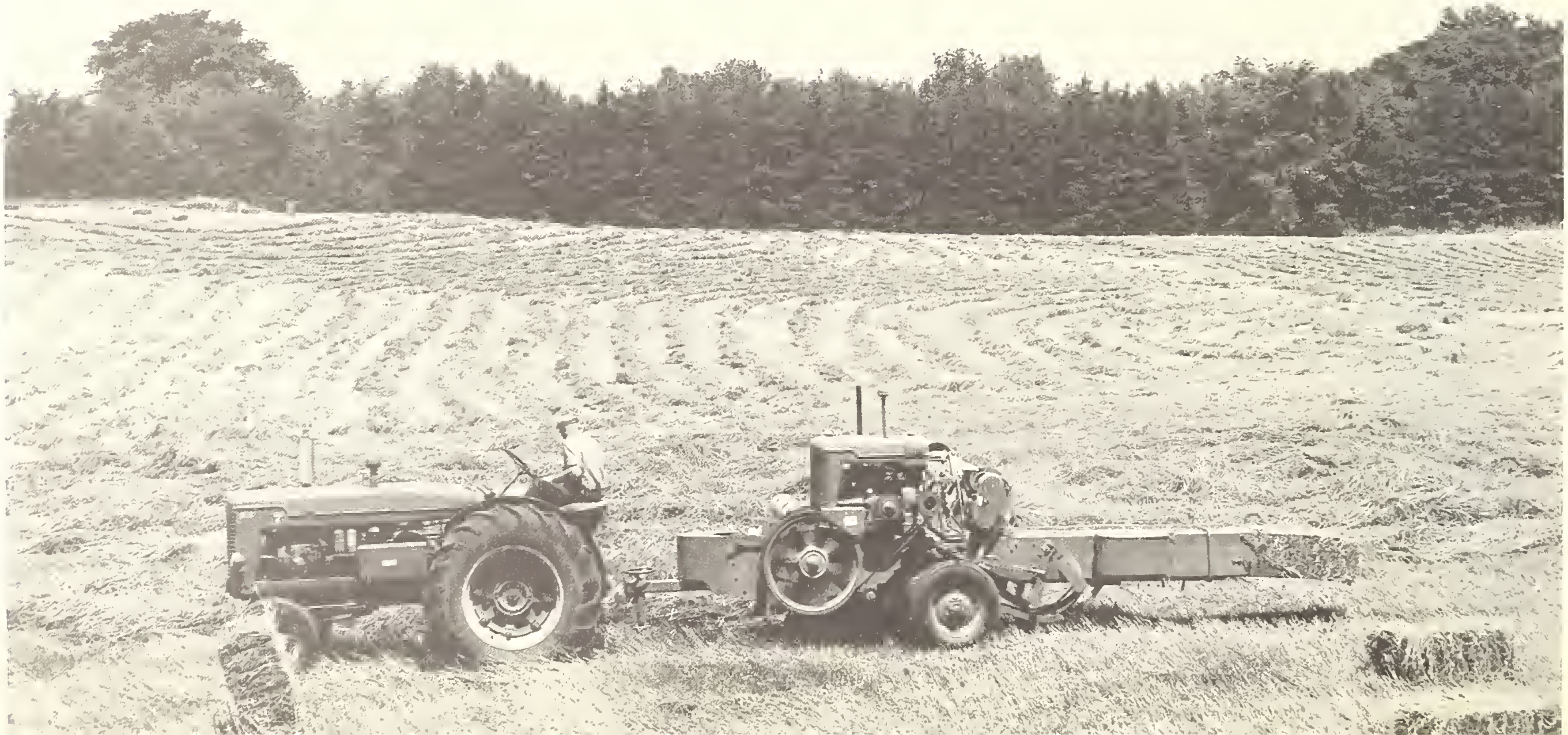
Until regional government structures are developed, they could operate as co-ordinators for the region. The committee suggests that the Regional Development Boards be organized under the Department of Municipal Affairs.

Role of local municipalities

The municipalities must continue to play an important role in land use planning and regulation. The major concerns of the municipalities will involve the development aspects with respect to their local communities.

Ontario Land Resources Commission

It is recommended by this Committee that legislation be enacted establishing the Ontario Land Resources Commission. Its function would be to co-ordinate land use planning in the province. It would play a role for land similar to that carried



out by the Ontario Water Resources Commission for water.

This Commission must undertake to co-ordinate the land use policies of different government departments and agencies. All government departments and agencies would work within the land use policies and plans adopted by the Commission.

It could approve financial grants to the Regional Development Boards so that they could undertake comprehensive land use planning.

The Commission would have authority over all land use in Ontario. Regional Development Boards would submit their plans to the Commission for approval. The Commission would have the power to make plans effective and binding. The Committee recognizes that the Commission would assume some of the responsibilities presently borne by the Ontario Municipal Board.

It will be the responsibility of the Ontario Land Resources Commission to give direction to the Regional Development Boards regarding the overall pattern of land use policy for the province. To act in this capacity, the Commission must work closely with the provincial government authorities concerned with land use and regional development policy.

The Committee recognizes that there are several government departments concerned with land use. **It recommends that the Ontario Land Resources Commission be administered under the Department of Energy and Resources Management.**

Guidelines for development

The Ontario Land Resources Commission should set up policy guidelines for the future regarding the development of land use consistent with economic and social development policies for the province.

Industrial and urban development must be encouraged in areas outside the present industrial fringe around Lake Ontario. Both land use and development policies must discourage any further use of land for industrial development in areas where large scale population and industrial concentrations are imposing a heavy burden on citizens. This burden is borne both by people in these areas and by people in other areas where opportunities for employment are decreasing. There must be careful regulation of land which is to be used for urban, residential, and industrial development, so that land uses are encouraged according to a pattern that is beneficial to the people of the province as a whole.

Any comprehensive plan must consider land for agricultural use. An effort must be made to determine in which areas the use of land for farm production is the most beneficial for all concerned. Plans should be made to take some land out of farming in the various regions of the province so it can be transferred to non-agricultural residential, industrial and recreational uses. The choice of the land in each region for these purposes must consider needs in terms of food production as well as the needs of community residents and businesses.

Land designated for industrial and residential development in the regions would be in well organized units so the integrity of farm communities is maintained. The property tax base of these areas should be separate, so farmers do not have to pay the cost of developing this land for its new use.

Land required for farm uses should be designated for primary agricultural production. This would prevent the scattered spreading of industries and residential sub-divisions into farming communities, particularly when land for development exists in the designated regional growth centres. Farm land which may be needed for development in the future should have development dates established to indicate the earliest likely time at which it would be transferred out of farming. These policies would discourage speculation in farm land prices. They would also provide greater security for farmers renting land which may come up for development in the future.

There is a great shortage of land and facilities for recreational purposes in southern Ontario. At present 6.2 million people (89%) live south of North Bay. This area requires the development of significant quantities of land for recreational purposes.

The northern parks and forests are too far away to provide weekend facilities for the majority of people living in the large cities of southern Ontario. As these cities grow more crowded and as their air grows more polluted, people require more and more non-urban recreational facilities.

Poor-quality land belonging to farmers in this region should be purchased by the government and developed into parks and forests.

In view of the expense involved in developing land for recreational uses, this Committee suggests that public expenditures on park development in the north be stabilized for the present, and that the government concentrate such expenditures in southern Ontario where more people will realize a benefit. It is not suggested, however, that the government should cease its programme of designating land for parks in northern Ontario. Such designations should, in fact, be included in the overall land planning suggested.

Land use plans must be concerned with land which, as a result of adjustment programmes in agriculture, is no longer required for farming. The Regional Development Boards must make plans for the use of land taken out of farming under these programmes. For this reason, all plans for the use of land must be co-ordinated by the Ontario Land Resources Commission. This would affect the activities of most departments of government including Agriculture and Food, Highways, Trade and Development and Municipal Affairs.

Changes in land values

The introduction and implementation of land use planning and regulation in all areas of the province would cause changes in land values in many communities. The designation of specific geographic areas within which industrial and residential development may take place would result in increased values of land in such areas. These increases should not be too great if adequate numbers of these areas are designated and if urban centres are not permitted to reach too great a size. Nevertheless, some increases in values of land would occur.

Likewise, some land prices are likely to fall. In a number of rural regions, land prices have been pushed up by speculators and land developers anticipating future industrial and residential use for the land. Under a comprehensive land use plan, many of these areas would be designated for primary agricultural production. Such a designation would cause the prices of land affected by these pressures to drop.

To the present owners of the land, these increases and decreases in land values would represent capital gains and losses. The decreases in values of land in agricultural areas would benefit farmers who wish to acquire land, but who cannot do so at presently prevailing prices which have been established by land speculators. The decreases in land values would also reduce the tax load carried by the owners of the land, since their assessment should fall to a corresponding degree. On the other hand, those persons who have already purchased land would suffer through capital losses as a result of falling land prices.

Use of compensation

The fact that there would be gainers and losers as the result of land use planning and regulation has led our Committee to investigate possible methods by which losers can be compensated, directly or indirectly, through the gains. Such a policy would have two distinct advantages. First of all, it would be more equitable than a system which does not provide for compensation. Compensation of losers would avoid unfair losses of savings for those who have put their savings into land. Doing this through the gains of those who benefit would mean that great windfall gains as the result of government decisions are avoided. Second, the use of some compensation policy would permit the planning of land use to take place through public discussion and participation. If losses were compensated out of gains, there would not be the large scale transfers of property that usually take place as public policy on land use control begins to take shape.

Government control of development rights

Our Committee has investigated two possible compensation mechanisms.

One would operate by giving the government ownership of the development rights of land. The government or a municipality could issue bonds to all farm landowners in return for the development rights to the land. The face value of the bond would be established as the difference between the current farm use value of the land and its current market value. The government or municipality would promise to redeem these bonds at face value plus interest when the land is developed for a non-farm use. If land is zoned for farm use only, the government or municipality could promise to redeem the bond in twenty years' time.

Land would be freely transferable from one owner to another as long as it remains in its present use. The development bonds could also be saleable from one person to another at any time.

The government could buy the land at its farm use value and resell it at a price of its choice. Under this system, capital gains or losses would be allowed to accrue to the owner of the land if these resulted from changes in the agricultural production potential of the land. If the land were developed for urban or industrial use, the capital gains resulting from this change of use would go to the government.

The system, as we have outlined it, permits a landowner to retain capital gains which have occurred in the past. However, any future capital gains which might result from land being zoned for industrial or residential use would accrue to the government. Likewise, any capital losses through a drop in price of land which had potential urban uses, but which is zoned agricultural, would be compensated for by the government.

The government would have the option to decide how land to be developed is to be used. If it desired, it might wish to restrict the price at which it sells land for residential development to keep down the cost of home ownership. It might also choose to retain ownership of some developed land, and lease it to new users at rates determined on the basis of the use to which it is put. As a final alternative, the government might wish to sell the land at as high a price as the market will bear, thereby providing it with a ready source of revenue.

If this system were introduced, farm land in rural-urban fringes would no longer change hands at highly inflated prices. A farm land purchaser could only hope to sell the land in the future for its farm use value. This would reduce the property tax burden for farmers in these areas. It would also make land purchases for farming purposes a more realistic investment.

The fact that the development bonds are freely transferable means that past capital gains which resulted from non-farm influences can be realized at any time. This would allow present owners to invest these gains in more profitable alternatives without selling their farm land.

This system could be introduced in stages. In the initial stages, municipalities could buy development rights to whatever quantity of land they feel they will need over the foreseeable future. The provincial legislature would have to pass enabling legislation permitting municipalities to do so. In the later stages, the provincial government could adopt the system, and implement it on a province-wide basis.

Selective capital gains taxation

An alternate method of compensation could be to establish a special capital gains tax for land whose value is affected by land use plans and regulations. The tax rate set on these gains and losses could be set at a rate as high as 75%. Realized capital gains in land due to changes in land use plans and regulations would be taxed at this rate. A loss offset would allow this percentage of realized losses in land values to be claimed against income tax payable over a five-year period. If this value is greater than the income tax of the person affected over a five-year period, the government could make a cash payment on the remainder.

Changes in the value of land which occur for reasons other than changes in land use plans and regulations would not be affected by the special tax. Assessors would review and assess gains and losses in land values attributable to changes in land use plans and regulations.

This system is much simpler to operate than the previous system we examined. In addition, a portion of future capital gains arising out of urban demand would still be left to accrue to the owner.

It has certain disadvantages compared to the compensation system involving development bonds. It would not allow past capital gains to be realized until the land is sold. Property taxes will still be assessed on the pre-tax value of the land. As a result, this system would not reduce the property tax burden to the same extent as the system involving development bonds.

It would be extremely difficult for a selective capital gains tax to be operated at the municipal level. It thus has the added disadvantage that it could only be introduced at the provincial or federal level.

Chapter 7: Taxation

Questions regarding taxation

The most important question about any method of taxation is whether or not it distributes its burden fairly. An unfair tax is basically an immoral tax. If people believe that a tax is unfair, the belief can give rise to a good deal of political and social unrest.

Other questions can be raised regarding methods of taxation. What is the effect of the tax on the distribution of incomes? What is its effect on production and the allocation of resources in the economy? What is its effect on economic growth?

All of these questions have been considered by this Committee in making its proposal for tax reform in Ontario. It must be recognized, however, that often it is not possible to find methods of taxation which are perfect in terms of all of these questions. Generally the most we can do is try and organize the tax system so the adverse affects on production and economic growth are as small as possible.

On what basis should the tax burden be distributed?

It is our Committee's belief that the tax burden must be shared equitably and fairly. Given the current ideas of fairness in Ontario and Canadian society, there are really only two acceptable principles of fair taxation.

'Benefit' principle

One is the benefit principle, whereby the amount of tax paid is related to the benefits received from the public sector by the individual taxpayer. Theoretically, a value can be attached to the goods and services a taxpayer receives from a government. According to the benefit principle, the tax a person pays should be closely related to this value.

There are many difficulties in charging taxes according to the benefit principle. It is very difficult to put any measure on the value of government services a person receives. It is also difficult to know whether a person actually has access to, or takes advantage of, the services made available to him.

It is generally believed that property taxation can be justified according to the benefit principle. Municipal governments make available certain services to taxpayers through the property they own. The property tax is supposed to charge people for those services.

'Ability-to-pay' principle

The second acceptable principle of fair taxation is the ability-to-pay principle. People are assessed tax according to their capacity to pay taxes, based on the amount of spending power they accumulate in a year. People with progressively higher incomes are taxed at a proportionately higher rate than those with lower incomes. This is considered fair because people with higher incomes are able to give up more of their incomes without suffering hardships and sacrificing basic necessities.

The ability-to-pay principle is the one upon which income taxes are based. It is extremely important that suggested changes in the taxation of income conform to this principle.

Farmers and taxation

The particular structure of the agricultural industry means that farmers are forced to carry a larger burden of taxes than most other commercial enterprises. For most products, the farmer plays little or no role in setting the price of the product. Product prices are determined by the forces of a competitive market.

As a result, a farmer is unable to pass on tax increases through higher prices. Most other commercial enterprises are able to do this if it is to their advantage. They determine prices themselves, and are able to add a mark-up to the prices to cover tax increases.

For this reason, tax costs are probably of greater concern to farm producers than to most others.

Proposals for tax reforms

Recently there has been extensive and animated debate regarding tax reform. Over the last two years, three major studies of taxation have been released which are of major importance to Ontario farmers. In 1967, the Government of Canada released its *Report of the Royal Commission on Taxation*, better known as the Carter Report. This report culminated four years of detailed study of taxation in Canada. It recommended sweeping changes in the whole tax structure of this country. In Ontario, the provincial government released the *Report of the Ontario Committee on Taxation* in 1967. This report was reviewed by a Select Committee of the Ontario Legislature, which published its own report, entitled *Taxation in Ontario, A Programme for Reform*, in September, 1968.

Property taxation

The purpose of the property tax

"The foundation on which the local tax system is built is the assessment of real property. Real property assessment determines the base for taxation in support of local municipal services. Equalized, it provides the base for financing joint expenditures made through counties, high school districts and other such inter-municipal bodies."

This is how the Ontario Committee on Taxation summed up the basis for and purposes of the property tax. The property tax is a means by which local governments may obtain claim to part of a person's income or wealth. To a certain extent, it endeavours to charge people for local government services they receive through the property they own.

The property tax provides a simple means for municipal governments to assess taxes. It is generally considered that if municipal governments are to remain autonomous, they need their own tax base. Property provides such a base.

Present basis of assessment

The basis for assessment and taxation in Ontario is set out in the Assessment Act. Some 18 other statutes relate to the taxation of land but these are less important with respect to farm lands. In the current Assessment Act, a farm is not defined, but provisions are made within the Act for differential assessment of farm lands.

The principle on which property is presently assessed is the 'present use' principle. The Assessment Act states that the value of farm lands is to be determined on the basis of the sale value of the land for farm purposes provided the farm is used only for farming. This means that if the land has a higher value based on some other potential use, this latter value is not to be taken into consideration by the assessor.

The present use principle has created many problems in assessment. The problems have been particularly difficult in areas such as York County where the market value paid for farm land is frequently higher than the present use value. The present use principle was designed to make the property tax fairer to farmers. However, representations to the Ontario Committee on Taxation showed that the weight of taxation on some farms is excessive. The reasons for this are partly the difficulties in arriving at a present use value in some areas and partly a misinterpretation of the Assessment Act.

The benefits derived from the present use principle largely go to farmers at the fringe of an urbanized area. Farmers who live farther from the urban fringe receive very little benefit from the principle.

Method of assessment

For a considerable period of time assessment has been carried out by the assessors of each municipality. The techniques employed have varied from municipality to municipality and have resulted in inequitable assessment of properties within a county. Similarly, assessment of property has not been carried out as frequently as might be desired largely due to inadequate financing of assessment activities. As the situation now exists, some properties have not been reassessed for 20 years. In the most part those that have been reassessed have been done with the aid of the Provincial Assessment Manual containing cost data related to the year 1940.

Reform of assessment practices is in progress at the present time. The Department of Municipal Affairs has introduced new and improved assessment standards over the past few years. Training programmes for assessors have been improved and new ones introduced.

Since 1964, there has been an effort at consolidating assessment areas into county units. This programme is well in progress, and it appears that in a short time there will be many fewer assessment areas in the province. This should be a major advance in standardizing assessment practices.

Changes proposed by the Ontario Committee on Taxation

The Ontario Committee on Taxation recognized the great difficulties in using the present use principle of taxation. As a result, it suggested that the principle be discarded as the basis for assessment. The Committee recommended that all real property should be assessed at its actual market value, without reference to the value at which similar real property in the vicinity is assessed. Under its recommendations, farm property would be divided into working farm property and non-working farm property. The latter would include the residential portion of the farm, and would be taxed according to the provisions applicable to residential property.

Different base values for taxation would be established depending on the use to which the property is put. Residential properties, recreational properties and wastelands would be subject to a property tax based on 70% of the assessed value. Business properties other than transportation and communications but including working farms and taxable mining properties, would be subject to a property tax based on 50% of the assessed value.

The Committee also recommended the removal of differential mill rates granted in favour of residential and farm taxpayers over industrial taxpayers.

Effects of these changes

Our Committee undertook to investigate the effects of these changes on the property tax bill of farmers. We were not able to undertake a thorough statistical evaluation of the changes. However, our tentative results have agreed with those of the Ontario Federation of Agriculture. The system proposed by the Ontario Committee on Taxation, compared to the present system, would have the effect of generally reducing farm incomes. These effects would be most severe for farms in the urban fringe. Our studies show, for example, that as a result of these recommendations the total tax bill for a typical farm in southern York County would increase by some 435% over the current tax bill.

Report of the Select Committee on Taxation

The Select Committee of the Legislature reviewing the Report of the Ontario Committee on Taxation was not satisfied with changes proposed by the O.C.T. The Select Committee proposed that the recommendations under which a working farm is taxed on the basis of 50% of assessed value be changed so the basis is 40% of assessed value. The Committee proposed that residential and business property be subject to a property tax on a taxable assessment of 60% of assessed value.

Unsatisfactory features of proposed changes

Our Committee has not been entirely satisfied with the property tax reforms proposed to date. Very little statistical analysis has been undertaken to determine the extent of the tax burden likely to be imposed by these changes. It appears to us that the changes in total could seriously deplete the current income of most farmers. We would like to have this verified or disproved before reform is undertaken. If the changes do have major effects on current incomes of farmers, this should be serious cause for questioning the changes. Farmers' incomes are already low relative to the rest of the population. Any tax change which accentuates this inequality in the distribution of income is questionable.

In the event that the government undertakes to make changes in the property tax system before a full study of its effects are possible, we believe it would have to reconsider the recommendations of the Ontario Committee on Taxation.

The recommendation that farm and urban residential property has a taxable assessment based on the same proportion of assessed value is only acceptable if other safeguards against unfair taxation are introduced. Many farmers live on farms in mixed urban-rural municipalities. The farm residences seldom receive equivalent services to those provided to urban residences. New tax legislation must ensure that in such areas farm residential taxes are not the same as urban residential taxes. This requires either that the taxable assessment base for farm residences be a lower proportion of assessed value, or that differential area charges be introduced into the tax rate structure. If the latter alternative is accepted, there must be some kind of legislative assurance that it will in fact be used in mixed urban-rural municipalities.

Our Committee supports the proposal that all real property be assessed at 100% of actual current values. However, some protection must be introduced for farmers in areas where urban expansion leads to a serious inflation of land prices. Assessment procedures must guarantee that the assessed value relates to the actual market value of the property assessed and not to general property values in the area. This will require major improvements over current assessment practices.

There is also a need for comprehensive land use planning and regulation. Land not required for urban development should be designated for farm use, thus preventing inflation of land values for urban uses from affecting the value of such land.

Even with effective regulation of land use, urban demand is likely to inflate the value of some farm land above its value in farming. As long as this land is used for farming, the property tax could impose a burden on the income of the operator.

We recommend the introduction of a system which permits the deferment of some of the property tax when farm land values are inflated by demand for urban use. The system we recommend would operate as follows:

The assessment of all real property should be at market value. The main basis for taxation should be 40% of this assessed value for working farms. A secondary assessment should be developed which values the property in its present use, and a secondary base value for taxation would be determined from this assessment.

In cases where the taxable assessment determined from the present use value is less than the taxable assessment determined from market values, part of the property tax should be deferred until the property is developed for urban use. The difference in taxation arrived at from the two assessments is to be the amount of tax deferred. This portion of the tax is to be deferred annually until the farm is developed for non-farm use. Interest could be charged on the deferred tax by a municipality.

The Ontario Committee on Taxation recommended the removal of differential mill rates which give preferential tax treatment to residential and farm taxpayers. Our Committee would only support such a change if legislative guarantees are provided to ensure that a system of differential rates be made applicable in mixed urban-rural municipalities. In many municipalities, farmers do not have access to the same services as urban dwellers, and should thus be taxed at a lower rate.

Taxes for education

Education as a government service bears no direct relationship to property. The benefit received by families from educational facilities is not connected to the property which they own or use. Those who control sizeable blocks of property in order to earn a sufficient living do not benefit any more from educational services than do those with relatively small holdings.

We accept the view that the property tax should be based on the benefit principle of fair taxation. This means that only services provided through property should be paid for out of property tax. Since educational services are a service provided to people independent of their use of property, the costs of education should not be met out of property taxes.

The Ontario Committee on Taxation seemed to generally accept the benefit principle with regard to property taxation, but it failed to apply this principle to revenues for education. That Committee proposed only that there should be some reduction in the scale under which educational costs are met through property tax. However, it is still accepted that a major proportion of such costs should be covered by a tax on real property, for two main reasons: the property tax is a convenient source of revenue and it permits control of education to remain at the local level.

The first of these reasons appears to us to be inadequate. The second has merit, but we are of the view that other more suitable means can be devised to ensure that local communities maintain as much autonomy as possible in the field of education.

Educational costs cannot be met out of a tax that conforms to the benefit principle. There is no way of assessing an individual or a family directly according to the benefits they obtain from the educational system. In addition, a large part of the benefits of education go to society and not to the individual. Young people educated in rural communities often move to urban ones, and these latter communities obtain the benefits from the educational system.

Tax revenues for education must be met out of the provincial and federal tax base. The major benefits of education go to all the people of the provinces and the nation, and all should share in the cost. **Our Committee recommends that provincial grants for education to the local municipalities be increased as soon as possible to cover 100% of educational costs.** This would in effect mean that educational costs are met out of a tax on income earners in general.

The benefit principle applied to property taxation

Our Committee has been concerned with the question whether the present property tax can be justified on the basis of the benefit principle of fair taxation. In our view, the property tax displays weakness on this score.

The property tax which a municipal property owner presently pays depends on the value and the quantity of property he owns. Farmers require large quantities of land to earn sufficient incomes to maintain themselves and their families. The purchase of this land places a heavy burden on the income of farmers.

The property tax load intensifies this burden and it is not clear that farmers obtain a corresponding benefit from municipal government services out of these taxes.

Many services provided by the municipalities are for the benefit of industries and residential dwellers in the municipality. It does not appear to our Committee that industries and residential dwellers are paying property tax in accordance with the benefits they receive from these municipal services.

Often property taxes are significantly increased to finance the initial public investment needed to establish new residential and industrial subdivisions. This is particularly true in rural municipalities where development is still in its initial stages. It is not obvious that farmers obtain a benefit from these developments in proportion to the share of the costs they bear. The costs of road construction and welfare programmes bear inequitably on farmers, particularly when they are principally undertaken to service tourist or commuter traffic. We have already discussed the problem associated with local taxes to meet the costs of education.

The property tax as presently structured conforms to only a limited degree to the benefit principle. There must be constant effort to adapt it so the tax paid by a property owner is more closely related to the value of the services provided to property. This can be partly accomplished by better land use regulation so that industrial and residential developments take place within an urban tax base. Improved methods should be developed for measuring the value of municipal services, and differential tax rates introduced on the basis of these values. Municipalities should improve their planning and forecasting regarding development needs for municipal services. This would reduce present errors in long term capital investments by municipalities.

Taxation of income

Federal involvement in the income tax system

In recommending proposals for reforming the income tax system in Ontario, it must be recognized that Ontario does not act independently in the income tax field. Under the present agreements, the federal government has the power to alter tax regulations and to organize the structure of the taxation system as it deems necessary. As a result, most of our recommendations involve changes which, in the final analysis, would have to be agreed upon by the federal government.

What is income?

A tax system which taxes incomes depends heavily on some acceptable definition of income. Most of us, at first glance, would say that income is simply the cash we earn in any year less the costs of earning it. This is known as the 'cash' basis of computing income. This is one way of measuring income, and one that is used extensively by farmers in reporting income for income tax purposes. It is not the only measure of income, however, or even the most logical one.

The concept of income must measure the amount of spending power which accrues to a person in a given year. It is not clear that the 'cash' basis does this in the best way possible.

The 'cash' method

The 'cash' basis of measuring income gives a measure of one's non-capital cash receipts in a given year less costs of production. Costs of production are defined to include an allowance for depreciation of capital equipment and buildings.

The 'accrual' method

The currently prevalent alternative to the cash method outlined above is the 'accrual' method of computing income. Most businesses other than farms are required by the Income Tax Act to use this method. By this method, inventories of products held by the business are kept each year. Increases in inventories are added to cash receipts after expenses, and decreases in inventories subtracted to arrive at income.

Logically, this approach is reasonable. Increased stocks, if sold, would have yielded cash receipts which could have been used to purchase goods and services. When a farmer or businessman decides not to sell some of his products, but rather holds them as stocks, he is in effect saving some of his income of that year.

Consider a farmer who decides to carry over an extra 500 bushels of corn on his farm this year. He is saving some of the purchasing power produced on his farm until a later year. Under the cash basis of computing income, he would pay no tax on it this year. But if he sold the corn and put the receipts of the sale in the bank this year, he would pay tax on them. The accrual method attempts to remove this inconsistency in the cash method of computing income.

It must nevertheless be recognized that the accrual method could restrict this farmer by forcing him to sell his corn to obtain money to pay his taxes. As a result he may be forced to sell the product at a time when it is not to his best advantage. To this extent, the accrual method can penalize a producer of products which fluctuate in price.

How important is the clash between the cash method and the accrual method? Since accumulated inventories will be sold at some time, the producer does not really escape taxation, but simply postpones payment for a time. In addition, the 'cash' method allows the cost of producing the stocks in the year of production to be deducted from cash sales of that year, meaning that the tax paid on that year's cash sales is less than it should be. The cost would ultimately be allowed as a deduction, so this really involves only a deferment of tax. By deferring tax payment until another year, the cash method means that the government gives the taxpayer an interest-free loan which is invested in a non-interest earning asset.

The Income Tax Act permits farm incomes to be calculated on either the cash or accrual basis.

Increases in capital values

Neither the cash nor the accrual method includes increases in the capital value of assets as income. When the value of owned assets increases, the owner increases his potential power to purchase goods and services. When an asset is sold and a capital gain is realized, the actual command of that person over goods and services has increased. If income is to be defined broadly in terms of the total command over goods and services which a person accumulates in a given year, there would seem to be little justification for not including capital gains as a part of income.

At the present time, however, capital gains are not included in income as defined for taxation purposes.

Persons as the recipients of income

Rates of income tax are not determined by the rate of return earned by resources. Two identical machines earning exactly the same return may have greatly differing proportions of the value of their output going to the government in taxes. This is because tax rates are determined by the total income of the person who receives the product from the machine. Income for tax purposes is seen as the economic spending power which accrues to people, as opposed to resources.

Fairness is a meaningless word unless applied to persons rather than things. For this reason, criticism of the income tax system because it taxes capital too heavily, or land too heavily, or labour too heavily, is misdirected. No tax system could long prevail in our society if it were based on the principle of treating capital fairly, land fairly, and even labour fairly as a commodity. Only people are treated fairly or unfairly in this context, and thus it is the total income of a person, regardless of its source, which is important in determining a fair rate of tax.

The present income tax system as it applies to agriculture

Farmers in Ontario pay income taxes to both the federal and the provincial governments. The federal government collects the total amount and transfers a share to the province. The provincial share is currently 28% of the federal tax.

The income tax system makes special provisions to take account of the special characteristics of agriculture. These special characteristics include the variability and unpredictability of production and prices, and the prevalence of small individual owner-operated enterprises with the consequent close integration of personal and business activities.

Basic herd provision

Another feature of present income tax regulations is the 'basic herd' provision. Under this provision, a farmer who maintains a permanent herd of livestock for the purpose of producing livestock or livestock products for sale may claim the productive livestock as capital assets. The acquisition cost of the livestock included in the basic herd cannot be deducted from taxable income.

Averaging of income

Farmers are allowed to average their income over a five-year period. A farmer may pay tax in the fifth year of a five-year period in such a way as to adjust his total tax payment for the period as if the average income was in fact the income for each year of the period. An averaging period consists of the year of averaging and the four immediately preceding years for which the taxpayer has filed income tax returns on time. A year that was included in a previous averaging period may not be included, nor a year earlier than the sixth year prior to the year of averaging.

Depreciation allowances

In calculating depreciation allowances, farmers are permitted to use the straight-line method, rather than the reducing balance method. The reducing balance method was made compulsory for most other businesses in 1949.

Facts about farm income taxation in Ontario

Our Committee selected two recent years to illustrate the present income taxation position of Ontario farmers. 1965 was a reasonably representative year in terms of farm incomes. Compared to the average, 1966 was a year of exceptionally high farm incomes. We have thus used the year 1965 to indicate the average participation of farmers in the income tax system, and 1966 to indicate the upper limit on the number of farmers who will be included in the income tax net.

In 1965, approximately 25,000 farmers paid income tax. This figure represented 34% of the farms with gross sales over $1,200 in that year. Thus in an average year, only one third of the farmers in Ontario earn a sufficiently large income to pay income taxes.

In the peak year 1966, 36,700 farmers in Ontario paid income tax. This represented 43% of farmers with sales over $1,200. It can be concluded from this that even in an exceptional year less than one-half of the farmers in Ontario earn a sufficiently large income to be charged income tax.

It is interesting to note that the farmers who do pay income tax produce by far the largest proportion of farm products in Ontario. The 34% of the farmers in 1965 paying income tax sold 74% of the total agricultural products sold by farms with gross sales of $1,200 or more. In 1966, the income-tax paying farmers produced 80% of the farm products sold in this class.

Economic effects of income taxes

Many economic theorists have suggested that a tax on incomes has the effect of reducing production. This is because an income tax reduces the return on additional hours worked and on new capital invested. The theory is that persons will decide, with a reduced return for each hour worked, that they prefer to take more leisure. Similarly, since capital returns are reduced by an income tax, it is suggested that potential investors will prefer to put more of their income into consumption rather than into capital equipment.

Should this argument carry the importance that it was given in the theoretical literature, it could be argued that the net effect of an income tax for agriculture is positive. The problem in agriculture is that the supply of products expands faster than demand, forcing down prices and reducing incomes. If an income tax reduced the rate of supply expansion, this could alleviate some of the downward pressure on prices.

Alas, statistical verification of this theory was never found. It makes sense to suggest that a lower rate of return on labour due to an income tax should lead to a preference for more leisure and a lower rate of profit should lead to a preference for consumption over investment. However, it must also be recognized that a tax on income reduces the total amount of income which people have to spend. To restore their income, people may work harder and longer and take more risks on capital, thereby actually increasing production as a result of the income tax.

Our Committee suggests that when all factors are considered, the net effect of the income tax system on total production is probably small.

Effects of income taxes on farm size

The income tax discriminates against large size non-corporate businesses, and against growth in size of farms. Because the income tax is progressive, with proportionately higher rates for larger incomes, it is obvious that the farmer with a large resource base is more likely to pay the higher tax. This is true even if his return to resources is lower than that of a farmer with a smaller resource base. It is this very feature of a progressive income tax which makes it non-discriminatory in social terms. However, it does mean that a progressive income tax discriminates against large size in non-corporate enterprises where business and personal activities are closely related.

The farmer with the greatest rate of growth and expansion is often the farmer with a large enough income to meet part of his capital requirements for expansion from his own sources. It is these farms which carry the larger tax burden, and thus expansion of farms is probably less than it would be in the absence of an income tax.

While these are largely unplanned side effects of the income tax system, the Committee did not feel that these effects are harmful socially or economically. As a result, the Committee has not made any suggestions for policy changes to counter-balance them.

Effects of income taxes on individual farmers

In terms of total population, a small minority owns business enterprises. The largest proportion of the people in society are wage and salary earners.

Business enterprises require finances to purchase capital equipment. Corporations finance their investment through retained earnings, sales of shares, and through borrowing. In this way they raise their finances for capital investment without directly depleting the incomes of individuals and families.

Non-corporate businesses other than farms can raise the capital they need through borrowing. The ones that raise finances out of the personal incomes of their owners usually only do so if the owners have sufficient incomes for this purpose.

Farmers operate a type of non-corporate business that has unique problems. Most farmers are not able to finance all of their equipment, buildings and land purchases from credit. As a result, they are forced to devote a considerable portion of their income each year to savings. The farmer's current income in spendable form is drastically reduced as a result of the need for money to pay for equipment, building and land.

Income taxation reduces the amount of income which people have to meet their current and future needs. The income tax system is so structured that most people will not pay income tax unless they have sufficient income available to meet the current needs of themselves and their families. This is done by means of basic exemptions.

Income devoted to the purchase of capital equipment is taxable. Capital purchases are not a current expense in a business operation. Generally speaking this does not create income hardships for individuals.

In the case of low income farmers, this is not always the case. Consider two individuals each with a net income of $4,000 before tax. Assume that one is a farmer and one is a wage earner. The wage earner will have $4,000, less the income tax, available for meeting the present and future needs of himself and his family. If the farmer has $2,000 worth of payments for equipment and land, he will have only $2,000 before tax to meet such needs. Yet both farmer and the wage earner in this example will pay the same tax.

Of course the savings which a farmer puts into equipment, buildings and land will eventually yield an income for spending on personal and family needs. Equipment and buildings yield income as they are used up in the production process. In the case of land, the savings will not be realized in liquid form until the land is sold.

Income devoted to land purchases

The income tax system presently allows a deferment on savings put into certain types of pension funds. The income put into these funds is not taxed until it is taken out of the fund when one retires. A maximum is set upon the proportion of one's income in any one year upon which tax can be deferred in this manner.

Land ownership is a common and legitimate means by which farmers hold their savings for retirement. **Our Committee recommends that a system be introduced by which the income tax on income put into land can be deferred until the land is sold or transferred upon retirement from farming, or upon death.** We recommend that the usual maximum of $2,500 per year be introduced for land purchases. The payment on the principal of loans for land purchase should be registered as a retirement pension contribution. In cases where land payments are greater than the maximum for some years and less than the maximum for other years, provisions should be made under which the payments may be averaged.

This provision would have the added benefit of increasing the amount of income farm families have immediately available for spending. The income tax bill of a farmer would be decreased over the years in which he is operating the farm if he is a land purchaser. This would be offset by a payment of the deferred tax when the land is sold or transferred.

Economics of depreciation allowances

Depreciation allowances are important in income taxation because of the nature of returns from capital equipment consumed through use. When a farmer invests in capital equipment, he hopes to reclaim through time the cost of the equipment plus a profit on the money put into it. Only the profit should be taxable as new income. That part of the return in a given year which pays off the value of the machine used up in production is really a reclaiming of money set aside in an earlier income period. It represents income which has already been taxed.

No method has ever been found to measure accurately what proportion of total receipts in a year is composed of reclaimed money representing part of the machine consumed in that year. As a result, the income tax authorities have set up somewhat arbitrary measures to be used in estimating depreciation on buildings and capital equipment.

In calculating depreciation allowances, farmers are permitted to use either the straight-line method or the reducing balance method.

The straight-line method

The straight-line method involves taking a certain percentage of the new value of a depreciable asset as a deductible expense each year until the asset is fully depreciated. Thus a pull-type combine costing $5,000 and depreciated at the rate of 10% per year would qualify for depreciation of $500 per year for ten years, to be deducted from total income in arriving at taxable income.

The reducing balance method

According to schedules provided by the Department of National Revenue, the rate allowed on such a machine under the reducing balance method would be 20%. This method provides for this percentage of the depreciated value of the machine to be deducted each year from total income. It means that the value of the machine in any one year for tax purposes will be the new price minus the amount of depreciation already claimed in previous years. For instance, in the first year, $1,000 depreciation could be claimed on the above machine; in the second year 20% of $4,000 or $800 depreciation, and so on.

What method should farmers use? There is little doubt that the reducing balance method is much more realistic than the straight-line method in calculating the depreciation of machinery and equipment. Rapid improvement in new equipment which gives rise to obsolescence, plus increasing operating costs for older equipment, means that the greatest proportion of the new price of a machine must be recouped in the earlier years of its use. By using the straight-line method, farmers impose upon themselves in early years a larger tax than is necessary.

Under the reducing balance method the tax must eventually be paid. However, by using the straight-line method, farmers in effect give to the government an interest-free loan in the form of an advance payment of taxes. This is money which could be used immediately by most farmers. A switch to the reducing balance method would thus increase the immediately available income of farmers.

The Royal Commission on Taxation recommended that farmers be required to use the reducing balance rather than the straight-line method. **Our Committee recommends that farmers accept this method in their own interest. We also recommend that the rates of depreciation allowed on specific assets be made more realistic.** For many types of farm capital the annual rates of write-off permitted are much too low, given the actual economic life of the asset. Tractors, self-propelled harvesting equipment and grain and feed storage equipment are good examples. Rates of depreciation allowed must be increased so that such machines can be depreciated for tax purposes at a rate consistent with the rate at which they actually depreciate.

Accelerated depreciation allowances

The Royal Commission on Taxation suggested that new or small businesses, including farming, be allowed to claim depreciation allowances of up to 100% of capital costs in any one year. This means that farmers would be able to accelerate their depreciation allowances to any rate of write-off they desire, subject to total depreciation allowances for any piece of capital not exceeding the original purchase price of the capital.

Acceleration of depreciation allowances would relieve the squeeze on the income of a farm operator who is forced to finance his capital purchases from short term credit or out of current income. It would decrease his tax liability in the early years of ownership; years in which his disposable income after capital purchases is likely to be low.

The basic justification for accelerated depreciation allowances is the lack of adequate credit available to farmers at present. Most farmers direct large amounts of current income into capital equipment and machinery. This depletes their spendable income during such years. The use of accelerated depreciation allowances would prevent further depletion of their spendable incomes as a result of income tax payments.

Under this system the lower tax liability in the year of the purchase of the buildings and equipment will be offset by a somewhat higher tax liability in the following years. However, these will be years in which the operator's cash position should also be better because of lower capital payments on the buildings and equipment.

The Royal Commission on Taxation recommended that accelerated depreciation allowances for small businesses be temporary. **Our Committee recommends that they be introduced as a permanent aspect of income taxation.**

The method of declaring income

The Royal Commission on Taxation recommended that all farmers be gradually required to change to the accrual method of reporting incomes. The essential differences between the accrual method and the cash method have already been discussed.

One objection farmers have to the accrual method is that it can lead to increases in the variability of taxable farm income.

There are often large year-to-year fluctuations in both production and availability of markets for many storable farm products, meaning that the quantity of farm-held inventories undergoes great changes from year to year. Changes in prices, particularly of livestock, can mean large changes in the value of inventories from one year to the next, even if the number of livestock in physical terms does not change.

A fact which makes this situation more difficult is that cash receipts often move inversely to levels of inventories, with increased inventories providing no immediate cash for meeting the tax obligations they impose. As a result, in years in which inventories increase markedly, the after-tax income of farmers can be reduced by an even greater amount than would be the case under the cash method. This, of course, will have a significantly adverse effect on the current income position of many farm operators.

Provisions for averaging income recommended by the Commission would tend to offset these effects, but the averaging provisions by their very nature call into doubt the benefits to be achieved from switching to a compulsory accrual system.

Our Committee rejects the proposal that farmers be required to use the accrual method of declaring income. The choice between the cash method and the accrual method should be left up to the farmer, as is the case at present.

Taxation of capital gains

Our Committee recommends that a capital gains tax be introduced in Canada. Gains in the capital values of assets represent increases in spending power, just as gains in current incomes do. The ability-to-pay principle of fair taxation requires that both should be taxed.

At the present time, many upper income people in Canada avoid taxation by taking their income in the form of capital gains. A capital gains tax would tax these income earners, and thus should allow a reduction in the overall rate of tax on income. This would provide a net benefit to lower and middle income groups in society. Most farmers belong to these latter groups.

The Royal Commission on Taxation recommended a capital gains tax for Canada. We support the form of tax recommended by that Commission.

The proposed tax is a tax on realized gains, with the gains on an asset being realized upon transfer of the asset through sale, as a gift, or through death. The tax is on the difference in value at disposition, with losses enabling one to claim a tax credit. The Commission proposed a $25,000 lifetime exemption for gains on residential and farm real estate. Gains would be taxed at full progressive rates of income tax, and thus treated like any other income.

All taxpayers would be allowed to average their income over five-year periods. This provision gives protection against taxpayers being placed in an unrealistically high tax bracket as a result of the sudden realization of gains which have accumulated over a large number of years. **Our Committee recommends the extension of the averaging period to seven or even ten years, since most capital gains in agriculture occur over a longer period than five years.**

Our Committee would under no circumstances accept that a capital gains tax be made retroactive. Investment decisions made in the past were made on the basis of no capital gains tax being in effect. These decisions would have been different had investors known that a capital gains tax was to be introduced.

Allowances for inflation in the capital gains tax

Our Committee recommends that rates of capital gains which correspond to the general rate of inflation in the economy should be exempt from taxation. If the prices of goods and services in the economy double over a period in which the value of an asset doubles, the owner of the asset does not receive any real capital gain. The money he gets from the sale of the asset will buy no more real goods and services than the money which he put into the asset would buy at its time of purchase.

Economic effects on farmers of a capital gains tax

Even with a $25,000 exemption on residential and farm real estate, there is no doubt that some farmers would have to pay a tax on capital gains. However, the data we have examined would indicate that, by and large, only farmers holding larger than average quantities of farm real estate would pay the tax. The reduction in the overall rate of tax on income which should come about in the future as a result of a capital gains tax would mean that most low and medium income farmers should gain in terms of total tax liability in the future.

The tax would no doubt slow the present rate of growth of farm land values, particularly since it would have a deterring effect on speculators in land. To this extent it would be beneficial to farmers who wish to purchase land for the purpose of agricultural production.

The fact that a gain would be deemed to be realized when property is transferred as a gift or at death could create problems for the transfer of an intact farm to beneficiaries or heirs who wish to continue the farm operation. This problem would be alleviated by ensuring that heirs and beneficiaries who wish to continue the operation have access to adequate credit. Property owners could also carry life insurance policies or accumulate additional savings to ensure that the capital gains tax can be met.

Estate taxes and succession duties

In Ontario, the tax complications introduced by death are enough in themselves to give one reason to disparage the fact of human mortality. The federal government first makes a claim upon the wealth of the deceased by levying an estate tax on the value of the estate after debts, estate expenses, and exemptions have been deducted. The remainder of the estate is then distributed to the beneficiaries. At this point, the provincial tax collector steps in for his cut of the pie in the form of succession duty. As the *Ontario Committee on Taxation Report* states:

"The difference lies in the taxpayer. The estate assessor looks upon the body of the deceased and in effect says 'alas, my poor brother'. The succession duty assessor looks upon the assembled heirs, murmuring 'fortunate children'."

In terms of equity considerations, an estate tax such as that levied by the federal government is not easily justified. It would seem much more logical to apply succession duties to the beneficiary and treat his inheritance as income.

It is difficult to give any precise account of the economic effects of succession duties and estate taxes. It is unlikely that such taxes exert a great impact upon savings or investment. Few people will refuse to accumulate wealth and thus refuse to make any provision for their heirs, simply because they do not want to see a proportion of that provision being passed on to the government.

No doubt succession duties and estate taxes do create some hardships for private businesses. They can at times force the sale of businesses like farms to raise revenue to pay the tax. This causes the break-up of the business.

The difficulty here arises because taxes must be paid in cash. The liquidation of part of a business in order to raise this cash can reduce its size to such an extent that it no longer provides a sufficient income to the operator.

Part of this problem can be avoided if current owners of farms and other small businesses make plans ahead of time to meet succession duties and estate taxes. This they can do through life insurance policies and through building up other forms of savings. A difficulty with this solution is that many farmers have been forced into already excessive savings through land purchases.

A more acceptable solution to the problem is to make adequate credit available to those who receive the inheritance. Since an inheritance is a real economic gain to the recipient, he should be willing to assume a certain debt burden if he wishes to maintain the full stock of assets he receives. To do this, however, he must have adequate opportunity to obtain the necessary credit.

Proposal for changes in inheritances and estate taxes

Our Committee supports the principle that all estates should be taxed as income of the recipients. A system which taxes estates as a whole regardless of the income position of the recipients discriminates against transfers of estates among low income people. Low income people pay the same rate of tax as high income people in such a situation. This is not consistent with the ability-to-pay principle of fair taxation.

Ontario presently has succession duties which essentially treat inheritances as income of the recipient. However, rates of tax charged on inheritances differ from those charged on income.

Our Committee recommends that both the Federal and the Ontario Governments collect taxes on inheritances through the income tax system. A Federal-Provincial agreement would be required to make this possible. We can see no great difficulty here. The Federal Government already collects an estate tax for a number of provinces.

We recommend that persons who receive capital assets through an estate be able to write these off through accelerated depreciation allowances. This would in effect mean that the tax on such assets would be spread over the life of the assets. Consider the case of a farmer who receives $25,000 of equipment and buildings through an estate. If he is allowed to depreciate the whole value of these capital items in the year they are received, he would pay no tax in the first year. In the following years, his tax would be increased slightly since he would not be able to claim any further depreciation on these assets. No tax is escaped. This is simply a means of spreading the tax through time. An upper limit should be set on the total value of buildings and equipment which can be written off in this way.

Depreciation cannot be claimed on land and residential housing. **We would recommend that generous averaging procedures be permitted for receipts of non-depreciating assets through inheritances.**

It is often difficult for those who receive farm units through inheritances to meet the tax payments without breaking up the farm unit. The introduction of accelerated depreciation allowances for depreciable assets and of averaging procedures for non-depreciating assets received through inheritances should relieve this problem considerably.

Our Committee supports the recommendation of the Royal Commission on Taxation that gifts be treated in the same way as inheritances.

There should be basic exemptions allowed on gifts and inheritances. These should be made to correspond as nearly as possible to the present exemptions allowed in the existing tax system.

PART III: FOOD PRODUCTION AND MARKETING

Chapter 8: Farmers' position in the food sector of the economy

A comprehensive approach to the problems in farming must look beyond the farm gate. The trend towards more specialized, larger size farming operations have made agriculture more commercial in two ways.

On the one hand, farmers have become increasingly dependent on purchased material, equipment and services. These are combined on farms with resources and labour supplied by the farm family.

On the other hand the steady commercialization of farming has removed the farmer from direct contact with consumers. Typically farmers produce food materials or ingredients for sale to marketing firms which perform the operations necessary to transform and make available final food products to consumers.

The concept of 'value added'

Every food item which reaches the consumer is the final product of a sequence of processes in which some basic materials are modified and other services are added to suit the ultimate consumer.

The complete process requires the use of resources in the manufacture and distribution of a wide range of materials and services needed by farmers in their operations. These include farm machinery, fuel, fertilizer and other materials.

Farmers in turn sell their partially finished food products to firms which process, package, transport and distribute them to the ultimate consumer.

The payments made for the use of land, labour and capital at each stage in the process can be called the value added to that process. The value added by farmers consists of the return to land, labour and capital provided by the farming family. Value added is the difference between cash receipts obtained from the sale of products to marketing firms, and the payments made for goods and services purchased from other firms for use in the farming operation.

Position of farmers in the food production system

During the last twenty years consumer expenditure on food based on Ontario farm products has been increasing rapidly. This food bill more than doubled from an average of 1,277 million dollars during 1949-53 to 2,760 million dollars during 1964-67 as shown in Figure 13.

The food marketing bill almost trebled during this twenty year period, increasing from 564 million dollars during 1949-53 to 1,601 million dollars in the 1964-67 period.

Farm cash receipts from the sale of food materials to marketing firms increased from an average of 713 million dollars to 1,159 million dollars.

Farmers' expenses, including payments for goods and services, as well as depreciation charges, more than doubled from an average of 444 million dollars during 1949-53 to 931 million dollars in 1964-67.

It is evident that net income to farmers, the return to labour, land, and capital provided by the farm families in Ontario, declined in this period from an average of 264 million dollars during 1949-53 to 221 million dollars in 1964-67.

These trends are a significant demonstration of how the food industry has expanded without yielding substantial benefits to farmers as a whole. They must be kept in mind if we are to develop a realistic approach to farm income policy.

First of all, the decline in net income flowing to the farmers does not by itself provide the main reason for alarm, since over the 20-year period the number of farmers who have to share this income has declined even more.

It is evident, however, that the position of farmers in the food marketing system has deteriorated, in the sense that their net income has become more vulnerable to pressures that can be exerted on both their buying and selling prices.

Technological changes in agriculture have forced farmers to purchase ever increasing amounts of goods and services. In these markets farmers are unable individually to exert pressure on prices of farm inputs such as food, fertilizers, fuel, or machinery. The relative ease with which firms in these industries can pass on increases in costs discourages adjustments necessary to improve efficiency. Over the years this can result in higher prices to farmers that seriously cut into the farmer's net income.

Increasing specialization in agriculture also has made farmers more vulnerable to changes in prices for their products. Many depend on one or two products to provide a major share of their net income, and a relatively minor decline in price can cause a disastrous drop in income.

The conditions under which Ontario farmers sell many of their products to processors and distributors are such that prices and incomes fluctuate widely, either periodically or continuously. Pricing of farm products is dominated by large corporate food retail chains, which exert pressure directly or indirectly, and with little regard for the effects on the net income position of producers.

Many of the recommendations of this Committee are designed to provide the agricultural industry with an organizational framework which will, through the exercise of bargaining power with other segments of the food sector, give the necessary economic security to farmers.

Net farm income accounts for only 9% of the consumer food bill. An improvement in bargaining position is necessary to ensure that the continuous improvements in efficiency which Ontario producers have brought about are reflected at least in part in improved incomes to farm families. This is quite consistent with keeping food costs to consumers at reasonable levels, since even a 10% increase in price and net income to producers, would require an increase in consumer cost of only about 1%.

Moreover, the improvement in the producers' bargaining position would enable them to exert stronger pressures for adjustments and improvements in efficiency in the farm supplies and the food marketing segments of the food sector. These two segments account for a large share of the consumers' food bill, and improvements in efficiency are clearly possible. These improvements will not be realized adequately, unless and until producers can exert sufficient pressure to encourage and even force adjustments. Evidently consumers would benefit from improvements in efficiency in these industries.

This has been the basic reason for our analysis of and recommendations with respect to the farming supplies industries and the food production marketing system, which follow.

Farm supply industries

Importance of the farm supply industries

In our study of farm income the decision to include the major industries that supply the farmers with their inputs was based on two considerations. In the first place, the net incomes of farmers are affected almost as much by the sums that farmers pay out for the things that they need in farming, as by the quantities and prices of farm products sold. For example, in 1966 Ontario farmers paid $957 million for goods and services used in the operation of their farms. The value of farm products sold amounted to $1,241 million. It is obvious that their net incomes could be affected equally by a reduction or increase in expenses as by a reduction or increase in sales.

In the second place, many of the changes in production methods taking place in agriculture originate at least partly in the industries that supply the farmer. Thus, the growth in size of farms, the changing requirements in farm management and changes in the organization of farms (as in the broiler industry) are caused to a great extent by changes in the products and marketing methods of the industries that sell to farmers.

Of the many industries that supply farmers with input products, three have been selected for detailed investigation: the farm machinery industry, the prepared feeds industry, and the fertilizer industry. These three industries affect farming most, both in dollar terms and in the ways they affect the organization of farms.

Rising input costs

It is self-evident that the prices which farmers pay for the products they use in farming affect their costs of production. It is also a well established fact that since 1946, these prices have risen much more sharply than the prices of products that farmers produce. In spite of this, farmers continue to buy, year after year, more of the products the industries supply. They do this partly because these products replace still more expensive farm inputs (such as labour and land), and partly because the purchased items increase the production of the farm by more than their costs.

During the 20-year period since the end of World War II the 'operating margin' of Ontario farms as a whole declined from 40% to 20%. (The operating margin is the difference between cash receipts from the sale of farm products and farm operating expenses plus depreciation. Hired labour is not included in farm operating expenses.) Should this trend continue as it has in the post war period, farm operating margins would shrink to little more than 10% by 1981. The effect on farm income is obvious. If the operating margin declines by one half, sales must double to maintain farm incomes at the same level.

Farm operators, acting individually, can protect their incomes only by expanding the size of their farms, by buying more land or intensifying their operations. This intensification of farm operations almost always means that more purchased inputs such as fertilizer, feed and machinery are used. The proportion of expenses to sales becomes even greater, and operating margins go still lower. In this respect it is easy to see how new production practices that allow farm expansion and more intensive use of land are forced upon farmers. Individually they have no choice but to adopt these practices in the face of rising input costs.

Influence of farm supplies industries on farming

The industries that supply agriculture with inputs have an effect on farm incomes through operating margins, and they influence the production practices used by farmers. These industries therefore affect the size of farms in Ontario, their management, and the way in which they are organized.

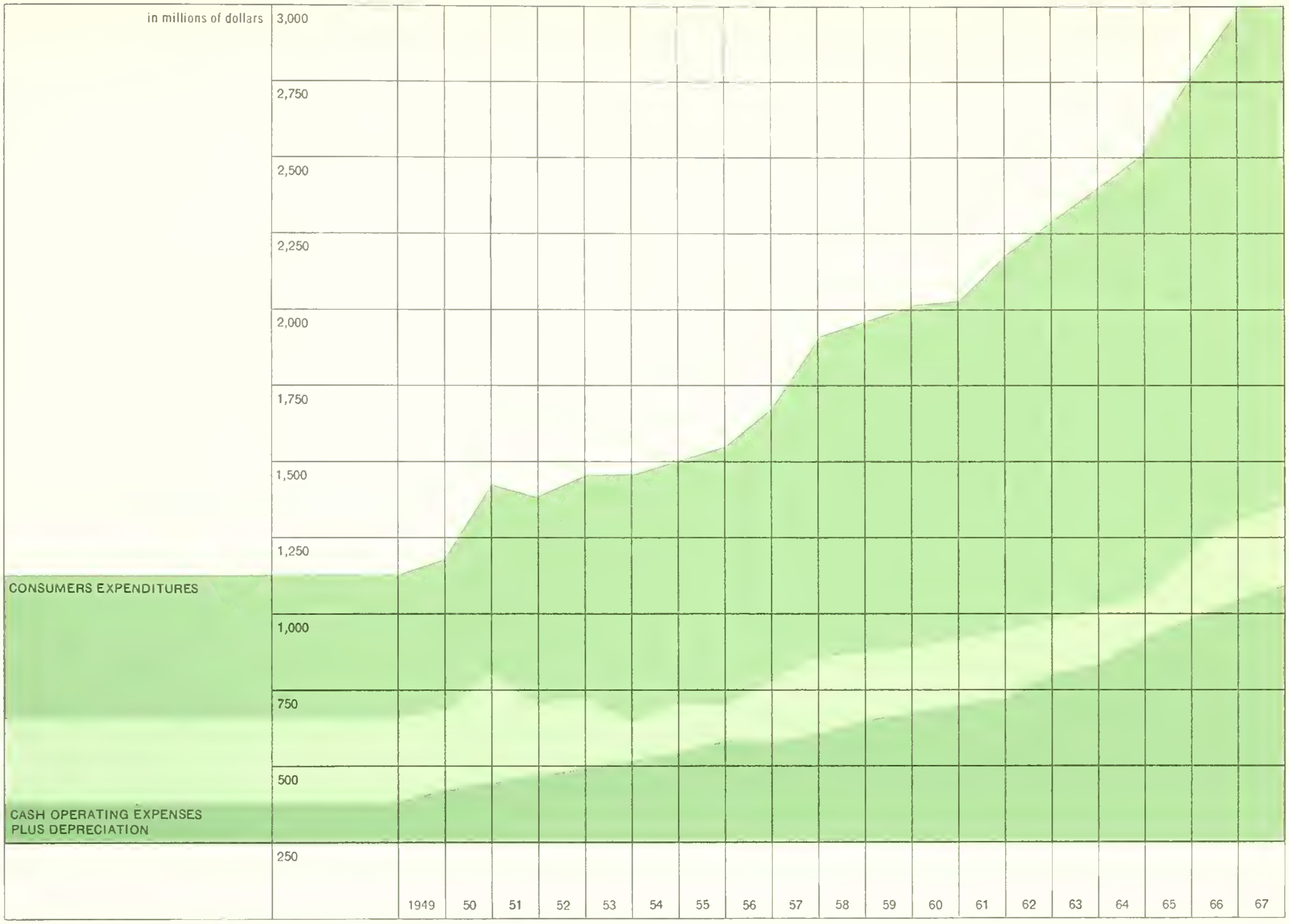
When most people think of the changes that occur in farming, they view these changes as occurring within agriculture itself, and the problems that these changes create are considered to be agricultural problems. Farm supplies industries are seldom thought of as part of this process of change.

This tendency to view the problems of agriculture separately is all the more baffling when it is realized that only 23% of the value of Ontario's farm products when they leave the farm gate is contributed by farmers. In financial terms the other 77% of the value of farm products (farm cash expenditures plus depreciation) is produced elsewhere; in Detroit, Des Moines, Milwaukee, Toronto and Brantford, in the oilfields of Alberta, in the refineries and chemical complexes of Sarnia, in feedmills and in the finance committees of municipal councils. It is true that

FIGURE 13

CONSUMER
EXPENDITURES ON
FOOD AND
FARM SHARE

ONTARIO AGRICULTURE
1949-64



🟩 processing wholesaling retailing
🟩 value added by operators
🟩 cash operating expenses less operator's share

there are many problems in farming and that the fate of some 100,000 Ontario farmers is connected with agriculture, but attempts to attack the farm problems by removing inefficiencies in 23% of the industry, while ignoring the industries and institutions that account for 77% of the value produced seem out of place. We therefore focus attention on methods that will improve the efficiency with which farmers are supplied with their inputs.

The main problems considered in studying the farm supplies industries were as follows:

1. The squeeze that increased volume and continually rising prices of purchased inputs for farming operations put on farm income.

2. The conditions under which machinery, feeds, and fertilizer are sold to farmers.

3. The tendency, or at least the possibility of vertical integration by feed and fertilizer companies.

In 1966 Ontario farmers had operating and depreciation expenses exceeding $957 million. Machinery expenses were 21%, feed 21.5% and fertilizer 6.5% of the total. Thus expenditures on these three items accounted for nearly one half of all farm expenses, and together they were $182 million dollars greater than total net income from farming. Unless therefore these industries are already working at high levels of efficiency, the potential of improving farm incomes by lowering the cost of these items is at least as great as by improving efficiency on the farms. See Figure 14.

The farm machinery industry

Due to the broad scope of our study, the time spent on the farm machinery industry was necessarily limited. A much more extensive treatment of this industry will become available with the completion of studies by the Royal Commission on Farm Machinery. Our researchers have, however, done sufficient work

FIGURE 14 Farm operating expenses, Ontario, 1966

			%
Taxes on owned land and buildings		$ 45,000,000	4.7
Gross farm rent		21,770,000	2.3
Wages		114,975,000	12.0
Interest on farm debts		50,610,000	5.3
Machinery			
fuel and oil	$57,449,000		
repairs	46,414,000		
tires, insurance, etc.	20,994,000		
depreciation	75,346,000		
Total machinery expenses		200,203,000	20.9
Fertilizer and lime		60,971,000	6.4
Feed		205,229,000	21.4
other livestock expenses		59,632,000	6.2
other crop expenses		30,419,000	3.2
building repairs		35,571,000	3.7
electricity and phone		12,137,000	1.3
miscellaneous		64,288,000	6.7
depreciation on buildings		56,307,000	5.9
Total operating and depreciation		$ 957,112,000	100.0
Total cash receipts		$1,241,915,000	
Net cash income		284,803,000	
Net cash income as per cent of total cash receipts = 23%			

to indicate the general problem areas in the industry and the effects of these problems on Ontario farmers.

Location of manufacturers

It is very likely that the geographical concentration of farm machinery manufacturing is a reason for the high cost, and the major source of unequal prices of farm implements in different regions. Although production on a large scale has considerable cost advantages in the manufacture of complex machinery, it is doubtful whether on the basis of efficiency a case can be made for having all of North America's tractors, let alone the less complex machinery, manufactured in one geographical region. Any existing advantages would be more than offset by the increases in distribution costs when the market area expands. In addition, there is evidence that attempts to achieve cost reductions through large scale production are frustrated by the necessity to adapt standardized implements to the needs of local farmers, so that farm machinery manufacturers, although operating on a big scale, do not have many of the advantages associated with mass production of a standard product. There is the further problem that the number of units sold by large machinery companies is declining due to decreases in farm numbers and the trend toward larger machines.

Franchised dealerships

The strength of the farm machinery companies in North America lies in the system of franchised dealerships. The dealership system is the prime source of their market power. Through it individual farmers must bargain with the companies over the price of machinery. The dealer's discount is the bargaining cushion. Strong dealers are able to protect their margin; weak dealers often can do so only with great difficulty, but the manufacturer's plant price is not really a part of the bargaining process. The dealership system is necessary for machinery companies to maintain their prices. In addition, there cannot be the slightest doubt that the total number of dealers in agricultural areas is larger than necessary to serve the needs of farmers.

A high-cost machinery market

The fact that franchised dealerships are used to maintain an artificial price structure for farm machinery in North America is more obvious when machinery prices in different markets are compared. In recent months Ontario farmers have given a considerable amount of attention to the importing of tractors from the United Kingdom. Savings of up to $3,000 on almost identical tractors have been reported when tractors are purchased from this source. Although any farmer can take advantage of this saving by importing his own machines, the inconvenience involved means that this option will be exercised by very few individuals. The franchised dealership system, therefore, has been able to assure international machinery companies of higher prices for at least some of their products in North America than in other parts of the world. As a result Ontario farmers are in a position where they must sell many of their products at world market prices, but they are faced with artificially high prices for the machines they purchase.

This Committee has no intention of placing the blame on any one machinery company or even on the industry for pricing practices that are no doubt sound business decisions for the companies involved. However the effect of these pricing practices on Ontario farmers is a further narrowing of operating margins which results in pressure on farm incomes.

An Ontario Farm Machinery Crown Corporation

If serious attempts are to be made to stop or even reverse the trend of rising prices of farm machinery and parts, how can this be accomplished? Since the market power of the farm machinery companies is anchored in their dealership, and one of the major sources of inefficiency lies in the excessive number of dealers, the franchised dealership should be seriously questioned. If farm machinery companies are reluctant to put their own house in order, interference in this dealership system by farm organizations or by government may be warranted, in order to sever the direct links between manufacturers and dealers.

The most effective way of achieving this would be to create one central wholesaling agency for farm machinery in the province administered by an Ontario Farm Machinery Crown Corporation through which all manufacturers would be required to distribute their equipment. Any dealer could then handle any make of machine. A number of advantages may be gained from the establishment of such an agency:

1. The agency would have bargaining strength and thus would act for farmers to counterbalance the strength of the farm machinery companies.
2. It would have the option to buy farm machinery in the U.K. or Europe if and when prices there are lower.
3. It would gradually replace a substantial part of the expensive sales organization that each of the companies now maintains.
4. Since it would remove the major barrier to the entry of small companies into the farm machinery industry, caused by their difficulty to retail their products through franchised dealers, it could conceivably stimulate manufacture of implements in various regions of Ontario.

This is a radical proposal and it would drastically change the present system of retailing farm machinery and parts in the province. Government interference to this extent might not be acceptable at present; therefore several alternatives short of this step may be desirable.

Improve parts distribution

Our Committee recommends as a first step, a central warehousing system for machinery parts should be established by these companies themselves. These central warehouses could improve the system of parts distribution by carrying large stocks of parts and making as many parts as possible interchangeable between different types and makes of machine, through cross-indexing these parts. Warehouses should be located at a number of strategic points in the province, and they should be open for long hours during the planting and harvest rush periods. Since the warehouses would stock parts for all companies it should be possible to operate a parts service with fewer people than the total number employed by individual machinery companies at present. Regular delivery schedules could also be set up to provide a much improved parts delivery service to both dealers and farmers.

The central warehouses could be set up by machinery companies themselves or, if action by machinery companies is not taken immediately, by the provincial government through the Crown Corporation discussed earlier. The intentions of the farm machinery companies in this regard should be determined without delay.

To ensure that these central outlets (and dealerships as well) are staffed by qualified personnel, training sessions for machinery servicemen should be made available.

Purchasing and selling of machinery

If it becomes evident that machinery companies are not proceeding fast enough in reducing the number of dealerships and making remaining dealerships more efficient, this Crown Corporation should expand its operations into the large-scale purchase and sale of farm implements in the province. To eliminate exclusive dealerships, all manufacturers should be forced to sell through this agency, and the agency could exert pressure to reduce the number of dealers and improve the location of dealerships in the province. The Corporation would have the option of importing farm machinery from other countries if suitable machines at reasonable cost are not available from domestic suppliers.

To make competition among the dealerships more effective, the central agency could take over the companies' practice of publishing suggested retail prices and maximum markups.

Farm machinery research

The problem of obtaining machinery that is suited to the requirement of Ontario farmers is a large and complex one. Machinery companies devote much of their resources to adapting machines to local conditions and this undoubtedly is a significant part of the cost of machinery to farmers. Although the costs of development work of this type are high, specialized machines must be adapted to Ontario conditions if Ontario farmers are to compete effectively with other countries in producing farm products. **This Committee recommends that Ontario's agricultural colleges place more emphasis on adapting specialized machines to Ontario conditions and that more public funds be made available for this type of research.**

The fertilizer industry

Characteristics of the fertilizer industry

The fertilizer industry has been undergoing a number of important changes. Among these changes are the entry of all major oil companies into the fertilizer business and the integration of fertilizer companies into the production of all three basic materials—nitrogen, phosphate, and potash. In the production and sale of fertilizers a number of facts stand out:

1. The manufacture of fertilizers and the mining of potash require large amounts of capital. The plants are so expensive that once they are built they must be run on a continuous basis at near maximum capacity regardless of the market outlook.
2. Whereas production takes place continuously on a year round basis, the overwhelming proportion of all fertilizer is sold during a relatively short period in spring. This practice ties up enormous amounts of capital for inventory, adds to the storage costs, and creates severe transportation problems in the spring.
3. The combined costs of general overhead, carrying inventory, storing, transporting, handling, and selling fertilizer are much greater than the combined costs of materials and manufacturing.
4. Manufacturers of fertilizers cannot make brands of fertilizer that differ from those of other manufacturers. This puts them in what to them is the distasteful position of having to compete on the basis of price. Especially when the industry has considerable excess manufacturing capacity, as is the case at present, such a situation is highly unsatisfactory to the manufacturers. To defend themselves, the approach being adopted by most fertilizer companies is to create captive outlets by integrating forward into the retail market, which may lead eventually to integration into farming by these companies.

Basically, by creating an expensive system of regional retail outlets the fertilizer companies hope to be able to replace price competition by competition in services.

Fertilizer pricing practices

Since the fertilizer industry is faced with serious over-production problems, it would appear that some fertilizer companies have attempted to maintain normal prices for fertilizer in domestic markets through their own distribution systems and to sell some of their surplus fertilizer at lower prices in the United States. For a particular fertilizer blend, price differences of up to $39.00 Cdn. per ton have been observed between southwestern Ontario and the midwestern states.

This results in a situation similar to that in farm machinery. Ontario farmers are placed at a competitive disadvantage because of the multiple pricing practices of fertilizer companies in international fertilizer markets. Since this situation may seriously affect the ability of Ontario farmers to compete with other areas in crop production, the Committee feels that further study of the pricing practices of fertilizer companies is warranted.

Duplication of facilities

In retailing fertilizers to the farmer, volume is unquestionably the most important factor determining handling costs. The efforts of the fertilizer companies to establish chains of retail outlets must therefore be viewed with serious concern. Duplication of expensive facilities and still more expensive services will add substantially to the cost of distributing fertilizers, and these costs will be borne by farmers. If the cost of fertilizer to the farmer has to be kept to a minimum, duplication of retail systems should be resisted. Since the building up of retail chains by the fertilizer companies is still only in the beginning phase, there is still time to intervene in this process.

A Fertilizer Review Board

To facilitate the development of an effective, low-cost distribution system for fertilizer and to prevent the duplication of facilities discussed above, our Committee recommends that a Fertilizer Review Board be set up under legislation by the provincial government. This Board would be a licensing authority; it would restrict the number of retail fertilizer outlets to one or two per area, by granting licences to private companies and co-operatives in each area. The area to be served should be determined on the basis of the amount of fertilizer used; for example, one outlet for every 5,000 to 10,000 tons of fertilizer used per year. If the outlets are owned by fertilizer companies or co-operatives they have some measure of protection against price competition and the Fertilizer Review Board would have to review and guide the pricing policies of the private companies and co-operatives involved. The Fertilizer Review Board would continually review prices in domestic markets compared with prices in foreign markets, and study all aspects of the fertilizer distribution system to recommend needed improvements. The Fertilizer Review Board could arrange for the importation of fertilizer if fertilizer prices in foreign markets were of advantage to Ontario farmers compared with domestic prices.

Delivery discounts

A major problem in the distribution of fertilizer at present is the uneven delivery schedule of fertilizer from plants to farmers. The great majority of fertilizer use is still in the spring, and this causes serious storage and transportation problems to manufacturers and poor service to farmers at this time of the year.

An effective discount system for fertilizer could much alleviate the storage and transportation problems that now exist. Present discounts used by fertilizer companies are usually $5.00 per ton or less from fall to spring. These discounts do not give farmers an incentive to take delivery in fall and winter. There is the further problem that price competition by fertilizer companies in the spring results in some farmers being able to buy fertilizer at this time of the year for less than fall prices. This competition has destroyed the confidence of many farmers in the present discount systems.

The Fertilizer Review Board should negotiate realistic delivery discounts so farmers would have a real incentive to take delivery of bulk fertilizers for fall application and bagged fertilizer in winter for spring application. These discounts should be larger than those available now (perhaps in the order of 1% per month from the spring price back to the previous September).

The prepared feed industry

Feed manufacturing companies

Unlike the farm machinery industry, feed manufacturers deal in a number of very similar perishable products. In addition, their products have at least partial substitutes in farm-produced feeds. These factors greatly reduce the market power that feed companies otherwise might have. Furthermore, the large feed companies have no special advantage in serving the needs of the large number of diversified crop-livestock farms in the province. In fact they may have an inferior position with respect to the local co-operative or independent feed mill.

Vertical integration

The large feed companies may have distinct advantages in serving large, specialized animal production units. Where specialization becomes very great, vertical integration becomes almost unavoidable and probably not undesirable from the standpoint of public interest. What has happened in the past is that feed manufacturing loses its identity as a separate industry and feed companies become large-scale producers of animal products. This has happened to a large degree in the broiler and turkey industry, where in the initial stages at least, the financial instability created by specialization allowed the feed manufacturers to assume control from independent operators. It should be emphasized that vertical integration does not necessarily mean corporate ownership of all phases of the production chain, but rather central decision-making. If ownership and control by large non-farm business corporations are to be minimized, the course of events in the broiler industry should serve as an example to farmers; foresight and central direction are needed by farmers through their marketing agencies to cope with the problems created by specialization.

A high degree of vertical integration has occurred in the broiler and turkey industries. It seems not unreasonable to expect that similar developments towards vertical integration may occur in the production of eggs. It is also likely that hog production may fall under the control of large agri-business corporations if no action is taken by farmers themselves. These areas of animal agriculture are characterized by relatively short periods of production, rapid changes in production methods, and significant cost advantages associated with specialization. Financial instability is inherent in specialized production, and financial instability within the production system was the principal cause leading to vertical integration in the broiler industry. The large prepared feed manufacturers will likely do the integration if farmers, through their own organizations, are not prepared to participate in the vertical integration process.

Control of animal production

If vertical integration by feed companies in these areas of animal agriculture is considered undesirable, while at the same time it is considered desirable to maintain the rate of adoption of new production practices, the highly specialized producers of animal products should be given financial backing and adequate credit sources. Independent operators who are anxious to introduce and adopt new techniques are almost always short of equity capital and working capital. Unfavourable prices even for a relatively short period of time can be disastrous.

If, therefore, their enterprises are to be kept in the hands of independent farmers, a system should be devised that assures these operators of three things:

1. Access to capital for investment without too many restrictions.
2. Flexible stand-by credit to add to operating capital.
3. Premiums for superior products.

Integration by feed companies can be eliminated if supply management programmes are brought into effect for the products in question. Through supply management, the type of integration practised by feed companies can be replaced with a type of integration over which farmers themselves (through their marketing agencies) have control. Through supply management it is possible for farmers to gain all of the advantages of specialized planned production without giving up the right to make decisions about their industry. To keep production in the hands of farmers, feed manufacturers should be denied the right to produce large volumes of livestock and poultry products by placing a maximum size on the amount of a production quota that any one individual (or corporation) can hold. A more complete discussion of the vertical integration question can be found later in this report.

Chapter 9: General marketing

Although agriculture is often considered to be the sector of the economy that is engaged in the production of food, food is not really produced until it is in a form which is suitable for the consumer.

Farmers are part of a vast system for producing food. They must dovetail their efforts with farm machinery and feed manufacturers, food processors and retailers and restaurant operators. The direct return to farmers for their share in this complete process does not exceed 10% of the consumer's food dollar. Firms engaged in marketing and processing food receive close to half of each dollar. To restrict our search for greater efficiency in food production to the farmer, disregarding the rest of the marketing system, would surely have been a misdirection of effort.

A second reason for the Committee's interest in the marketing system is that farmers realize income by selling their products to food marketers, rather than directly to consumers. The conditions under which buying and selling takes place at all stages in the food marketing system have a direct influence on prices and incomes received by farmers.

We have therefore taken a look at the food marketing system to determine its role, to assess how well the system has performed, and to recommend improvements. We have tried to indicate the responsibility of farmers in this process.

Approach to analysis of the marketing system for agricultural products

An analysis and assessment of the marketing system must avoid falling into two traps, both reflecting the over-riding influence of philosophical or economic biases and interests.

On the one hand, the generalized, indiscriminately destructive criticism of the present marketing system in all its aspects is unreasonable. It often reflects fear and distrust of the unknown or the incomprehensible, and does not provide the basis for realistic consideration of alternate solutions.

On the other hand, the equally indiscriminate approval of the marketing system as it exists is also unreasonable. The self-appointed defenders, whatever their motives (philosophical, vested interest, fear of change), tend to resist any form of criticism, accepting the present situation as the best possible.

A reasonable approach to analysis and assessment of the marketing system for agricultural products must avoid both extremes. The marketing system must be seen as a group of institutions which does not meet all reasonable expectations. The system has been developed over time and is capable of being modified again without disastrous consequences.

A reasonably critical attitude toward the system is essential and should not be interpreted as a personal attack on participants in the marketing system. The objective of the analysis is not to lay blame but to seek ways of developing necessary improvements. The need for change can be accepted as a practical certainty. The only relevant questions concern aspects of change; what, how much, at what pace, how, and by whom?

Reasonable answers to these questions must allow a great deal of room for differences of view and compromise, since many complex considerations are involved. Information is unavoidably quite incomplete, and real conflicts of interest (economic, philosophical) and objectives within and among all interested parties do not allow any obvious, simple, perfect or permanent solutions.

The general argument in this report is that the rapid commercialization of agriculture into fewer, larger, more specialized production units cannot help but result in a re-organization of the marketing system. Agricultural producers individually cannot participate significantly in marketing and will have to work out appropriate methods of group involvement. A more structured marketing system is unavoidable.

Objectives of the food production and marketing system

Agriculture takes part in a joint effort with food processors and retailers to provide food for consumers. Satisfactory performance of this food production and marketing system requires that both the following goals are met:

1. To provide consumers with their requirements of food and related services in the form, at the place and time desired, and at the lowest possible cost in terms of resources (land, labour, capital) committed to the process. This will be called the efficiency goal.
2. To obtain from consumers a level of payment for food that is adequate in relation to services rendered, and to distribute this fairly among all participants (farmers, processors, retailers). This will be called the fair income distribution goal.

It is evident that these two objectives bear a close relation to each other. The efficiency goal is focussed on satisfying the consumers, and in exchange for this all the people who have contributed to this process expect to get a fair reward for their services. This fair return is not automatically assured but must be negotiated by each participating group. A satisfactory level of income is not always assured to efficient participants and denied to the inefficient.

Functions required of the food production-marketing system

Much confusion and disagreement with respect to food marketing issues results from a failure to distinguish clearly between the functional aspects (what the system is supposed to do) and the organizational aspects (how and by whom the function should be accomplished). We will spell out in some detail the functional aspects of marketing, before dealing with issues related to organization.

To achieve the efficiency and income objectives, the food production-marketing process must perform four basic functions adequately.

1. Determine what consumers' food requirements are and will be (quantity, quality, services), and inform all participants (retailing, processing, production) about these market requirements to provide a realistic basis for their planning.
2. Plan production to meet consumer requirements for food and selected services.
3. Execute the details of the plan by performing the physical

tasks of production, assembly, processing, transporting, storing and distributing food to consumers.

4. Determine and collect payments from consumers and distribute these among all participants in this joint process (producers, processors, retailers).

These four functions clearly bear a close, logical relationship to one another, which suggests that they should be performed in the same sequence.

The efficiency requirement refers to all four functions. The first function, providing the information base about all aspects of consumers' food requirements, must be assessed in terms of the completeness, reliability and continuity of information, as well as the cost of assembling and analyzing information to put it in a useable form.

This information about consumer food requirements must be communicated to all the decision-makers in the system. An important requirement is timeliness. Unless this function is performed adequately, the succeeding ones cannot be executed properly.

We will have more to say later about the importance of a realistic market orientation and the need for a more intelligent approach to assembly and communication of information about market requirements.

The most critical function is concerned with planning production and marketing. In view of the large number of people involved in decision-making or planning of product flow, some form of horizontal and vertical co-ordination among decision-makers is essential. Individuals must relate to one another when they make plans. They cannot expect to realize all aspects of the plan unless the plan of each operator is consistent with those of all others in the food production-marketing system.

What we call vertical co-ordination refers to the need for relating the plans of various stages in the system. Plans made by retailers must consider and be consistent with those made by processors or producers. We will deal with various forms of co-ordination, including vertical integration.

Horizontal co-ordination is concerned with the need for relating the plans of participants who engage in identical processes in the system. To be realistic, plans made by any one hog producer must be consistent with those made by other hog producers. He will consider ways in which more effective production planning by producers can be realized by means of supply management.

The third function is concerned with achieving efficiency in the physical production and marketing processes. Efficiency requirements of this function are more generally recognized since the execution of this function can be observed more easily than the previous two.

The fourth and final function of the food production-marketing system is concerned with income distribution. The marketing system must determine and collect the proper total amounts of payment from consumers. These must be distributed fairly among all participants in the production-marketing process so that all are rewarded adequately for services rendered.

Objective analysis of this function requires that the system be considered as capable of charging consumers too little as well as too much. Most analyses ignore the possibility of undercharging, both when considering the total food bill or the price of specific foods.

Similarly, we do not accept the idea that the food production-marketing system automatically and invariably ensures a fair distribution of consumer payments for food among all participants.

Organizational requirements of the food production-marketing system

In the previous section we indicated the four functions which the food marketing sector of the economy must perform. We must now consider more controversial issues related to organizational requirements.

Organization is the distribution among all participants in the system, of responsibility for making or influencing decisions and actions that determine performance, with respect to both efficiency and income distribution. Distribution of such responsibility is important, because in the food production-marketing system, the welfare of each participant depends on decisions made by other participants.

From the producers' point of view the organization should be such that it meets two essential conditions. In the first place it must enable producers to make effective production plans. This raises questions concerning the best form of organization among producers for rational production planning. We will consider this in the discussion of supply management.

The other organizational requirement is that producers must be organized so they can protect and promote their interest in the market by influencing the actions and decisions of food processors and distributors. They should encourage and support practices that are beneficial and discourage or prevent those that have harmful effects on producers.

The Committee is convinced that the producers' interest requires a strong organization capable of assisting producers in production planning by means of a supply management programme. This organization should represent producers at all stages in the marketing system. We will later present a number of specific recommendations dealing with these aspects of organization.

Supply management

In our discussion of the functions of the food production and marketing system it was indicated that to realize reasonable efficiency and income objectives reliable and complete market information must be available when production plans are made.

Traditional production planning in agriculture

Most farmers are well aware that planning what and how much to produce can be a trying task. They know from experience that the prices they expected often did not materialize when their products were sold. Occasionally they may have been pleasantly surprised but more often prices turned out to be disappointing.

For many farmers, disappointment has turned to frustration

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and anger at the system. They have tended to look for political solutions through public assistance.

The Committee is convinced that this approach is not satisfactory. We agree that individual producers are helpless to ensure that their production plans are realistic and can be achieved. Organized or group action by producers is required, but we are convinced that it is no longer satisfactory or acceptable to seek temporary, public assistance by means of organized political action. Producers must put major reliance on more permanent, organized, economic action in the market.

The technological changes that have encouraged more specialized, larger-scale farms also require a much heavier dependence on purchased supplies by farmers. It is no mere coincidence that farmers have become more market conscious, since relatively small price changes can result in large changes in their net income.

Producers should realize that so long as they continue to make production plans independently, without reference to one another, the total supply and price will be unpredictable, and often will turn out to be unsatisfactory. To get reasonable price and income certainty some form of effective co-ordination among individual production plans is necessary, so total production will be in line with market requirements.

Efforts towards more effective co-ordination of individual producers' production plans can take a variety of forms. All will impose some restriction on the independence of action by producers, if they are to be effective.

However, real independence of action is limited in the case of most farm operators. A farmer is committed by training and investments to participate in the system in a specific role and has little real scope to exert his independence. Furthermore, independence can be enjoyed much better on a full stomach: it must be accompanied by a satisfactory income. The vast majority of mankind (urban or rural) is not in the fortunate position to enjoy complete freedom without income problems. Most people are prepared to accept some restrictions on their independence where this is necessary to fulfil their other needs and desires, including a satisfactory income.

The concept of supply management

The Committee is convinced that an organized method of production planning in agriculture on a continuous basis is absolutely essential and unavoidable. It is a logical development in the steady commercialization of agriculture. It is also basic to a realistic market orientation by farmers.

We wish to make abundantly clear what the real issues and choices of supply management are. In most sectors of the economy, managed production is the normal practice. Production is geared to market requirements at pre-determined prices, to ensure a desired return to resources. Wages in most industries are established through negotiations with labour unions. Management makes the decision to increase or decrease employment and production to suit its objectives. Some unused capacity is regarded as a normal, even, at times, desirable state of affairs. Society has been prepared to accept whatever costs are associated with this practice of supply management.

Agriculture has been the only large sector of the economy without real production management. Production and supply management has been needed but it has not been feasible for the industry as a whole.

This is no longer the case. Supply management in agriculture is now possible. Many production processes in agriculture which in the past were difficult to control have become more manageable. This includes most forms of crop and livestock production.

The steady reduction in numbers of producers and the trend to more specialized, larger scale operations have made the industry more manageable. Although the number of farmers continues to be large, new techniques in communication and data processing make it possible to handle large volumes of data quickly and at low cost.

The real question with respect to supply management in agriculture is not whether it is needed or feasible. Supply management will be a fact of life. The questions to be decided are: who will do the management, and how will management be accomplished? The Committee is convinced that some of the most important policy questions revolve around these issues.

Supply management in Ontario agriculture cannot be held back for any length of time except at great cost. There are many benefits associated with this planned approach to agricultural production. However, the distribution of these benefits will be determined by those who control and manage the industry.

Piecemeal supply management

Supply management is not altogether new, but has been in effect in several sectors of Ontario agriculture for a number of years. The advantages associated with a more manageable agriculture have attracted agri-business firms, which have developed programmes to control or influence production on farms. This has been most significant in poultry meat production by feed companies, and vegetable production by processors.

The Committee is fully aware of the benefits that can be realized by the application of new technology in agriculture and food marketing. We accept that this requires changes in marketing practices, including more direct and continuous supply arrangements.

Experience also shows, however, that the uncontrolled, piecemeal approach to supply management by these agri-business firms has led to a very unequal distribution of benefits and costs.

The Committee is convinced that it is practically impossible to manage supply on a piecemeal basis. The Committee believes agri-business firms must not be permitted to engage in a competitive race in which many producers will suffer serious losses.

The Committee does not believe that this piecemeal, uncoordinated approach to adjustments in agriculture in response to technological developments is in the long term interest of consumers. During the initial stage when each firm seeks to gain a competitive advantage, supplies and prices to consumers will fluctuate wildly. Eventually, unsatisfactory profit experience will force adjustments in the industry until only few firms remain. They can be expected to force prices up to a level where they can achieve their profit objectives.

For these reasons piecemeal supply management is undesirable and must be avoided in the future. It can be replaced by other forms of supply management, which will not only encourage increased efficiency at a realistic rate, but will also assure that the interests of producers and consumers are protected.

Supply management can make a significant contribution to achieving our major policy goal, to have the largest possible number of efficient farms which provide an acceptable return to resources.

Single commodity supply management

Several marketing boards in the province now operate a supply management programme covering all producers of specific products such as broiler chickens or tobacco. Other boards, including those for processing vegetables and winter wheat, operate programmes which include certain features of supply management.

The Committee sees these programmes as an important step in the development of a more comprehensive approach to supply management in Ontario agriculture, and will review some basic aspects with this in mind.

A basic and most controversial aspect of supply management relates to the methods used to determine overall market requirements and to allocate a share of the total to those interested and capable of contributing to the supply.

It is necessary for a supply management programme to establish what market requirements will be at a range of prices. For most products a relatively low price will allow a larger quantity to be sold than will a high price. There is a critical minimum price at which many producers would not be able to achieve satisfactory incomes. Similarly at very high prices, less product could be sold, leaving room for only a few producers, who could secure very large incomes.

There is room for considerable judgment with respect to the most desirable price level and total production of many products. In determining the proper price level two important factors must be considered. The price must be high enough to bring forth reasonable supplies of food which can meet the requirements of the market. However it must not be so high that it encourages excess production. This would require severe restrictions on production, which in turn could force resources into the production of other farm products. This might result in lower prices and income for producers of these products.

It is apparent that price and supply determination has many effects not only on producers and others directly concerned, but also on producers of related products. This is most important in the case of products which compete closely with one another in consumer markets, such as poultry meats, hogs and beef. It is also important where products compete for farm resources, as in the case of corn, wheat, barley and soya beans.

A single commodity approach to supply management, especially when it is used for only some of a number of related products, has many shortcomings. It is more difficult to achieve substantial benefits for members in the programme. There are also many side-effects on producers of related products where no supply management programmes have been developed. Some of these effects can be beneficial, but more often they are harmful. If supply management is successful in improving income to members, there will be increasing pressure for outsiders to enter the programmes.

These difficulties could be considerably reduced by extending supply management to all major products, and by operating co-ordinated or even joint programmes for products which are closely related to one another.

Allotments and quotas

Perhaps the most controversial issue in supply management is the choice of method used to allocate the required supply among producers. Allocation becomes necessary to ensure that total production will be in balance with market requirements at reasonable prices and to provide a basis for sharing the benefits of supply management among participating producers.

'Allotments' or 'bases' refer to the initial allocation, when a supply programme is put into effect. Distribution can be based on the contribution to supply that each producer has made during the base period. In the case of products requiring a substantial investment in specialized facilities, allocation can be related to this production capacity.

The term 'quota' refers to the part of each producer's allotment or base on which he can expect to participate in the benefits of the supply control programme. In some cases it indicates the quantity he is allowed to produce or market, in others the quantity for which he can expect to receive a specified price or premium. In the following discussion the word quota is used throughout to avoid confusion.

How to transfer quotas

As market requirements change and some producers wish to discontinue, while others want to expand or enter production, real difficulties revolve around the transfer of quotas between producers.

A realistic quota transfer policy must meet two important objectives. It must allow and even encourage adjustments in production that would result in substantial increases in efficiency and discourage those that would increase costs.

A second requirement is that quota transfer policy must promote a better distribution of benefits among producers. Quotas must be transferred over the years in such a way that the largest possible number of producers can earn satisfactory returns to resources consistent with the efficiency goal. In effect, this requires that very low and very high quotas be avoided.

The most common practice with respect to quota transfer has been to allow unrestricted sale of quotas among approved producers. There are a number of undesirable consequences associated with this practice. Among these are:

1. They increase costs. With each transfer the new entrant must pay out of revenue the cost of paying off the quotas plus interest.
2. They allow large wealthy operators to outbid smaller farmers for quotas even if the smaller farmer would benefit more in terms of resource returns and income than the larger operator.
3. They act against the policy of maximum number of reasonably efficient farms providing adequate resource returns.

4. They increase credit requirements.

5. They endanger the marketing legislation since society will not tolerate indefinitely a situation where farmers use legislation to create capital gains and added costs which are partially or completely paid for by voters, consumers and taxpayers.

Comprehensive supply management

The haphazard development of supply management by individual commodity boards, all operating independently, has many disadvantages. Lack of co-ordination has reduced their achievements, has led to duplication of service and in some cases has created serious problems for producers, both those participating in and those outside the programme.

If supply management is to assist in the attainment of the major goals of agricultural policy, to guarantee an adequate food supply at reasonable cost, and to provide a satisfactory resource return to as many farmers as possible, it is necessary to extend supply management to all major agricultural products in Ontario. Furthermore, programmes for these products should be co-ordinated as closely as possible.

Our case for a more comprehensive approach to supply management rests on the conviction that it can be a positive, balanced programme. We do not see it primarily or exclusively as a method of controlling or holding back supplies of particular products, but as a way of achieving a better-balanced supply of all farm products. This may very well require a reduction in supplies of some commodities from time to time, but can also include significant expansion in the production of others.

A comprehensive supply management programme could also play a major role in facilitating the adjustments that must be made in Ontario agriculture. This includes both the adjustments out of agriculture by some and adjustments to larger size and into different products by others.

The Committee believes it is necessary to develop a co-ordinated approach at both the policy level and with respect to administrative matters.

A general consensus on important policy matters must be reached. Supply management programmes for all agricultural products must be consistent with one another and directed toward realizing the major policy goals: to guarantee an adequate food supply at reasonable cost, and to provide satisfactory returns to resources for as many farmers as possible.

This must be followed by agreement on a consistent approach to supply management practices, including product pricing, quota transfer policy and joint action on adjustment problems. We have a number of specific suggestions and recommendations that indicate the approach we believe to be necessary.

Product pricing

As this report pointed out earlier, it is clearly impossible to set prices at levels high enough to meet the needs of all farmers. Even $10 per hundredweight cannot provide a good income to a 7-cow farmer, yet it could lead to a flood of surplus milk if this price were available to all farmers. However, for most products there is a practical range of prices and levels of production within which a choice must be made. The main objective is to provide competitive returns to resources on a maximum number of properly managed farms of adequate size.

To realize this objective as completely as possible, it will be necessary to determine prices in a more scientific manner. Factual information is available from several sources for this purpose. It is possible to develop model farm types that represent reasonable production practices. Information on production costs from competing areas would be helpful. Farm accounts must play a major role, particularly in future years, when the CANFARM accounting programme is generally adopted by farmers. It is reasonable to have a variety of information sources, since judgment is involved in establishing price levels.

In the case of closely related products it will be necessary to establish procedures for co-ordinating pricing policy. This is particularly essential in the case of products which can be readily interchanged in crop rotations. It is also necessary for products such as feed grains which are purchased as grain or prepared feed by livestock producers. There are many complex problems involved in determining prices of feed grains which are fair to both groups of producers. It will be necessary to determine an acceptable procedure for settling these issues, including the validity of information required to reach a realistic decision.

Finally co-ordination in price determination is desirable for products which compete closely for consumer dollars, such as poultry meat, pork, and beef. Knowledge of consumer demand must be considerably improved before significant advances can be made in this area.

Quota policy

The most important policy issues are those related to finding an acceptable method of quota transfer. We recommend the following approach.

In the future, saleable quotas should not be permitted as part of a supply management programme. In the case of products which presently have saleable quotas the Committee recommends that a programme be developed to eliminate the quota values over a period of time. This can be done by determining the number of months necessary to recover the purchase price of a quota, and announcing that at the end of that period, the sale of quotas between producers will no longer be permitted. This would give all those who have purchased a quota time to recover their investment.

The new quota policy would be closely integrated with the pricing policy discussed previously. Both would depend on the existence of detailed and comparable records for sample farms and eventually for all farms.

On the basis of farm accounts and field visits all farms could be classified according to size (the number of full-time men required) and to resource returns. Those farms with inadequate returns would be of two types: those where the operator has the management potential necessary to earn competitive returns to resources with some management advice or assistance, and those where the operator is unlikely to earn competitive returns to resources under any circumstances.

Quota distribution could be handled in the following manner. Every producer would receive a quota based on historical production. New quotas and transfers would be concentrated on small and medium-scale farms capable and willing to expand to a size necessary to yield competitive returns to resources and adequate income to the operator.

Over the years as adequate farm accounts become the rule, it will be possible to have farm operators apply for the right to produce on a contract basis. The agency should have at hand the statistics necessary to calculate the price at which they could earn competitive returns to resources. These statistics and complete information on each farm operation would permit the marketing agency to distribute quotas equitably to farmers achieving or able to achieve viable units.

This form of quota assignment would encourage the adoption of more efficient production practices without generating price-depressing surpluses. Changes in standards of adequate management and size would also be reflected over the years. The onus would be on other producers to adopt new technology or consider adjustment from the industry. This managed approach to adjustment would provide producers with better advance information about changing technology, and the effect on price could be introduced gradually. There would be time to develop realistic adjustment programmes.

Will comprehensive supply management work?

The Committee is convinced that a comprehensive approach to supply management is both necessary and possible. We do not underestimate the tremendous practical problems that must be solved. We have attempted to set the stage for a serious discussion of the basic issues on which agreement must be reached. These discussions must take place as soon as possible.

Further development of workable programmes will require more detailed study, to take account of the many differences in conditions facing individual farm products which require adaptations.

Supply management will work if it is approached as part of a programme to achieve more effective market distribution at realistic prices. In addition the supply management programme must include adequate provision for encouraging continuous and necessary adjustments in the food industry.

The producer's bargaining position can be strengthened considerably by developing selling programmes which include such features as supply guarantees, continuity-of-supply contracts, forward selling arrangements, store-door delivery, and minimum quality guarantees. One or more of these techniques can be adapted to practically all agricultural products. It is not possible at this time to determine with any confidence which methods are likely to be most effective for each product. This would require detailed work on each product group and discussions with marketers to establish an acceptable and workable plan. Even then methods would have to be adapted and refined from time to time, as more experience is gained.

The development of an effective marketing programme must be approached with an open mind, since many practical aspects must be considered to make them workable, and continuous assessment and adjustment is necessary. Experience with some marketing ventures in Ontario would indicate that hastily conceived programmes, based on optimism rather than facts, may be worse than no programmes at all. Not only are they disastrously ineffective, but they destroy confidence in producer programmes, cause severe losses to their members, and provide perfect ammunition for the confirmed individualist against any form of organized producer action.

The important task at this stage is to reach a general acceptance of the approaches and objectives basic to the development of an effective marketing system in Ontario agriculture.

It will also be necessary to indicate the broad guidelines to be considered in developing the organization for effective marketing. This will be done in the following pages.

Effective organization for marketing

The Committee recommends that farmers develop two organizations to represent their interest in marketing food in Ontario: the Food Supply Agency and the General Farm Organization. The function of the G.F.O. in marketing would merely be to establish policy guidelines, while the F.S.A. would have full responsibility for marketing all products to the best advantage.

If agricultural producers are to be assured of satisfactory incomes, they must look beyond the farm gate and involve themselves actively in the marketing system to ensure that their legitimate interests are given consideration. Efficiency in production is essential but not sufficient for the achievement of a satisfactory income. For the large majority of producers efficient production must be supplemented by effective marketing.

The marketing system is not neutral. It tends to serve those who are willing and able to influence its performance. Acting individually, most agricultural producers are impotent to protect their interests in the marketing system. They cannot acquire the thorough understanding, maintain the continuous contact with all levels of the marketing system and exert the necessary bargaining power to be truly effective marketers.

Some form of group action on the part of producers is essential. Voluntary group efforts, whether by means of co-operatives, producer associations, or voluntary collective bargaining, can improve producers' effectiveness in the market, but they all suffer from two serious shortcomings:

1. Voluntary group efforts cannot develop the comprehensiveness, scope and degree of involvement in the marketing system necessary for real effectiveness. Typically they are partial, limited efforts, including some producers, dealing with only some aspects of marketing. Their ability to become involved in marketing operations and to exert real influence is strictly limited by their voluntary nature as well as by costs.

2. A related shortcoming is the inequitable distribution of costs and benefits between members and non-members. To the extent that voluntary group action achieves real benefits, they tend to be shared in large degree by both members and non-members, while the costs of group action are borne by members alone.

This does not imply that voluntary groups have no role to play, but rather that in most cases they cannot help but be restricted to a supporting role, for a few producers, and for some aspects of the marketing function.

This conclusion does not reflect disagreement with those who have a strong philosophic preference for voluntary forms of organization such as co-operatives. We share this idealistic preference, but given the prevailing social philosophy or level of social consciousness within the Ontario farming community (and in Ontario society generally), voluntary group action cannot be considered useful as the predominant form of organization for effective marketing of farm products.

If voluntary group action such as marketing co-operatives were at the present time, or could become in the near future, a strong, generally accepted, vital force in the marketing system of most products, an effective marketing programme could be built around them very well. However, this is not presently the case, nor can it realistically be expected to be the case in the near future.

It is even less realistic to expect to gain substantial benefits for producers from efforts based on voluntary collective bargaining. There are two reasons for this. First, bargaining is more likely to succeed if it includes improvements in products or services offered to the buyer. This is unlikely to happen with a voluntary programme. Second, the voluntary nature of the system means that producers who do not participate gain equal benefits with those who do, but bear none of the costs.

Effective marketing of agricultural products will require some degree of compulsion. Objection to the compulsory features of marketing boards has been restricted to a very small but quite vocal minority, composed of persons with sincere philosophical objections as well as those who expected to lose rather than to gain benefits under marketing board operations. The large majority of producers has understood and accepted the need to reconcile their desire for independence of action with their interest in improving their economic wellbeing.

Much of the objection 'in principle' to the compulsory aspects of marketing boards is really aimed at the potentially arbitrary exercise of power by administrations operating marketing board programmes. The comparison is with the 'free market', although the objectors frequently fail to consider that these markets, in the case of most agricultural products, have their compulsory aspects. Moreover, these markets are not impersonal, but in the case of many products, consist of very few buyers willing and able to exercise their power arbitrarily.

Realistic concern with compulsion in agricultural production and marketing must focus on:

1. Minimizing the extent of compulsion consistent with realizing accepted objectives, regardless of how or by whom compulsion is exerted.

2. Making all aspects of compulsion explicit and open to review with all decisions subject to appeal.

On both counts, compulsion by marketing boards has scored rather well compared to the 'free market'.

The Committee accepts the need for marketing agencies such as boards. Much attention has been given to ways and means of strengthening them and making them more effective.

Over the last thirty years since the required legislation was introduced, a large number of marketing boards have been developed. Some have disappeared, but many, particularly those boards which have been prepared to change, have survived and become strong. We have seen a gradual consolidation of boards, and an extension of products covered in others.

We consider this a very desirable and necessary development. During the last twenty years there have been many radical changes not only in agriculture but also in the food marketing system. This has required related changes by the marketing boards.

However, we see the need for further changes at a more rapid pace, if marketing boards are to be able to represent adequately the interests of their members in future marketing systems.

We have worked out in detail the main aspects of the further development of the marketing board organization, and we will indicate how these changes can be implemented.

Development of an organization for marketing farm products in Ontario

The first step would be to bring together the Chairmen or a representative of all the marketing boards and representatives of commodity groups (or associations), where no board exists.

The major function of this group would be to draw up plans for a comprehensive marketing organization to represent all agricultural products in Ontario. This organization may be called the Food Supply Agency (F.S.A.).

The group would have to consider two major aspects of reorganization: those dealing with the function of the elected board members, who will be expected to develop a policy structure for a fully integrated F.S.A. and those relating to the administration of the internal programmes.

The elected board should concentrate its efforts on developing general agreement on a common approach to marketing programmes along the lines indicated in this report.

The next area would be that of developing programmes and working out the administrative details to operate these programmes.

Our studies of alternate forms of organization have made it evident that it would be desirable to consolidate the many marketing boards and associations into seven groups: Grains, Dairy, Meat, Eggs, Fruit and Vegetables, Tobacco and Miscellaneous. There are now 22 marketing boards and several associations.

Many considerations are involved in determining the most appropriate form and extent of co-ordination:

1. The close relationship of some products in production, where they may compete for land, use the same machinery, or are used in rotations.

2. The close relationship of products within the marketing system, where they require similar marketing techniques, use common marketing facilities or are sold to the same buyers.

3. The close relationship of products in final sale, where they are easily substituted by consumers for one another.

4. The products of some farmers, which are purchased by others as grain or manufactured feed and which become inputs for the purchaser.

There are many potential advantages associated with a rationalization of marketing boards on the basis of these guidelines:

1. The resulting fewer, larger, more comprehensive marketing boards could be much more effective in all aspects of their marketing programmes.

2. Not only would service to members be improved, but the cost of marketing board operations could be reduced in relation to benefits. Present overlapping among the boards in both membership and services would be reduced. There would be less cause for the presently unavoidable sense of frustration among marketing board members and staff.

3. Co-ordination of marketing boards along these lines could achieve fairer treatment for producers. Many groups of producers have a potential conflict of interest, and grouped boards could ensure a more acceptable distribution of the benefits and costs associated with marketing board programmes among all producers directly involved.

The consolidation could be implemented in stages, as illustrated in Figure 15. In Stage I the present marketing organizations that are closely related to one another have been grouped. The F.S.A. organization meeting must decide how a consolidation along these lines can be achieved. Many practical problems would have to be considered. Legislation would have to be developed to encourage these adjustments. Detailed terms of reference for the consolidation programme are needed.

It is apparent that at Stage I consolidation is quite incomplete for many product groups. Further changes would likely be necessary, particularly in the case of meat, and fruit and vegetable producers. We are convinced that a grouping of boards as in Stage II should be reached as soon as possible, because this is the minimum level of consolidation necessary for the development of effective joint marketing programmes.

There would be a need for formal and continuous co-ordination between the resulting product group boards, to deal more effectively with broad marketing and related issues, where action by individual boards would be less effective, more costly, or would fail to reconcile serious conflicts of interest among boards.

In Stage III, Figure 16, the seven marketing board representatives could form a continuous policy co-ordinating body which we have called the F.S.A. Board. An executive director would be appointed to act as chairman of this board and perform a co-ordinating and liaison role among the commodity group boards at all times. Other appointments to the board could include one person to represent the G.F.O., one to represent consumer interest, another to represent the public interest. These latter two appointments could be made by the Government of Ontario. These appointments from outside agriculture are recommended because the F.S.A. would exert broad power over the food industry.

At the administrative level further co-ordination would be equally desirable. Initially, it could take the form of an administrative committee composed of the managers of the seven marketing boards. A co-ordinator could be appointed for administrative liaison. He would also be able to provide some common services to the managers. This could include general market information, computer facilities and programming, transportation and storage, publishing and communication services.

The administrative co-ordinator would have complete access to the CANFARM farm accounting data, and would be in a position to provide detailed cost and production information to the managers of commodity boards and to the Food Supply Agency boards for their policy meetings.

The Committee is convinced that a high degree of co-ordination among marketing boards, along the lines represented in Stage III, is desirable. Every effort must be made to reach this stage as soon as possible. We expect that certain modifications may be found necessary as the re-organization process develops.

We are quite confident that the organization as represented in Stage III would be much more capable than the present structure in representing the interests of Ontario farmers.

It may be necessary to consider a further organizational development, as represented in Stage IV, Figure 17. The major distinction from the previous structure is that the co-ordinating roles at both the policy and administrative levels have become more centralized. Policy decisions are made by the Board of Directors with the advice of the G.F.O. Administration is centralized in the General Manager, to whom the managers of the seven product departments and research staff are responsible.

This more centralized organization may be considered as an alternative to Stage III, which is a looser, more voluntary organization. If the co-operation necessary for effective co-ordination is lacking at either the policy or the administrative level, the organization would become quite ineffective and eventually break down.

To realize desirable policy objectives it would then be necessary to bring in a more centralized form of the Food Supply Agency, as represented in Stage IV. This would require new legislation.

Purpose of the F.S.A.

The policy of the Food Supply Agency should be to ensure that a flow of high quality food is made available in adequate quantities to the population of the province and it should endeavour to obtain the highest possible revenue from the sale. The F.S.A. should undertake programmes related to: sales management, price determination, production management, inventory management, contract supervision, co-ordination with social policy agencies, research and agency financing.

The G.F.O. must ensure that the F.S.A. is marketing all products to the best advantage of the farmer. It must press the F.S.A. to present its case as strongly as possible in negotiations with farm supply companies, processors and distributors and retailers. When the F.S.A. fails to market the product on terms which provided the farmer with a reasonable resource return, the G.F.O. would have to present the opinions of farmers to government and press for reasonable resource returns.

On the other hand, the F.S.A. would have no direct responsibility for the incomes of farmers. It must ensure that resources in the food industry are combined in the most efficient way and that adequate returns are achieved for resources invested. Where it is clear that the market place will not be able to provide reasonable resource returns, even on well managed farms with adequate resources, the G.F.O. would have to assume

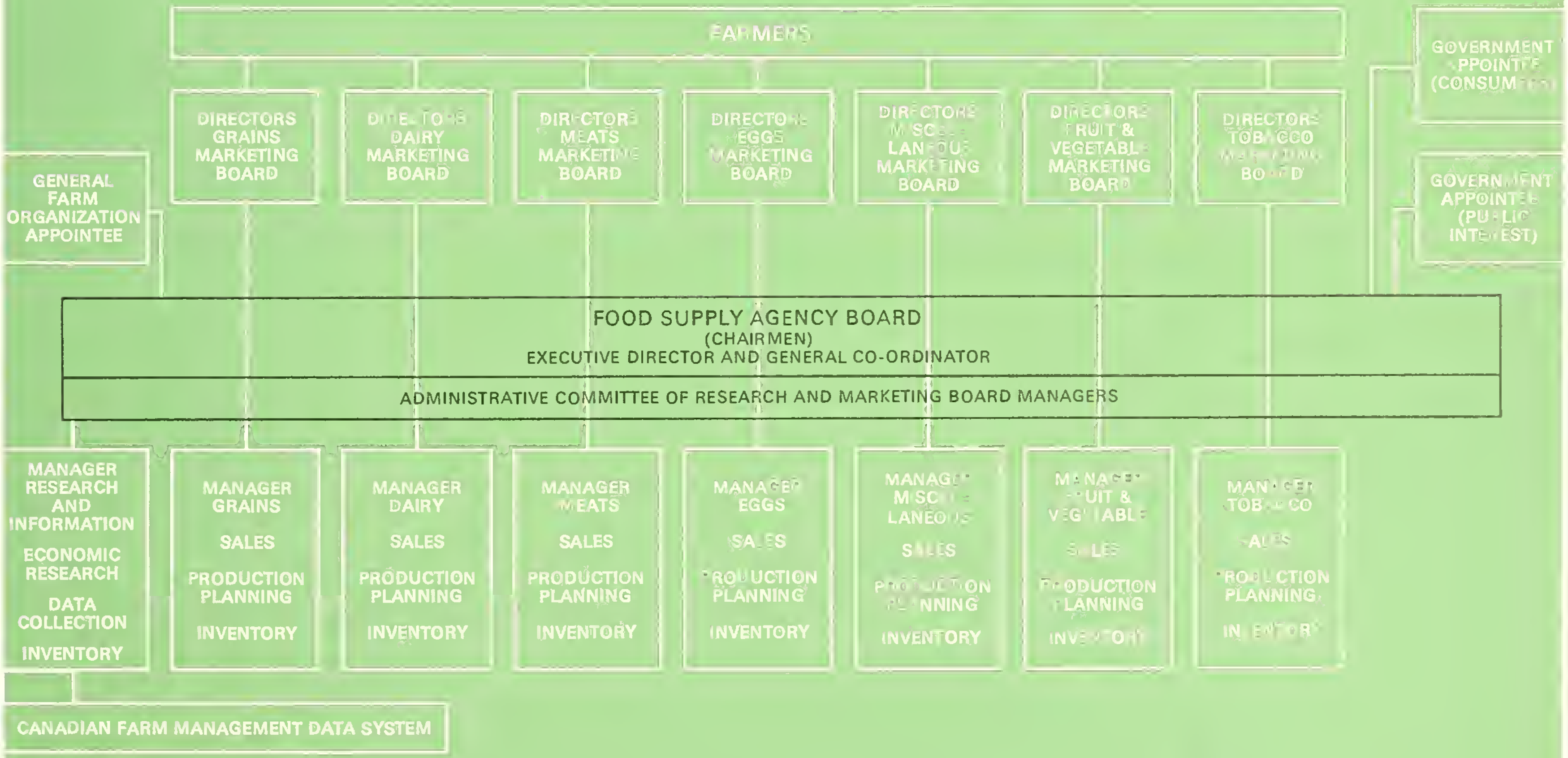
FIGURE 15

FOOD SUPPLY AGENCY: STAGES I AND II

MARKETING BOARDS		GROUPED BOARDS – STAGE I	GROUPED BOARDS – STAGE II
BEAN PRODUCERS SEED CORN GROWERS SOYA BEAN GROWERS WHEAT PRODUCERS	CO-ORDINATION MEETING AMONG GOVERNMENT DIRECTORS OF BOARDS PRESIDENTS OF ASSOCIATIONS	GRAIN	GRAIN
MILK CREAM PRODUCERS		MILK	MILK
BROILER CHICKEN PRODUCERS TURKEY PRODUCERS		BROILER AND TURKEY	MEAT (INCL. BEEF & FOWL)
HOG PRODUCERS		HOG	
EGG AND FOWL PRODUCERS		EGG	EGG
APPLE PRODUCERS FRESH FRUIT GROWERS FRESH GRAPE GROWERS		FRESH FRUIT	FRESH FRUIT & VEGETABLES
GREENHOUSE VEGETABLE PRODUCERS ONION PRODUCERS		FRESH VEGETABLE	
BERRY GROWERS GRAPE GROWERS TENDER FRUIT GROWERS		PROCESSED FRUIT	PROCESSED FRUIT VEGETABLE
ASPARAGUS GROWERS SUGAR BEET GROWERS VEGETABLE GROWERS		PROCESSED VEGETABLE	
FLUE-CURED TOBACCO GROWERS		TOBACCO	TOBACCO
ASSOCIATIONS			
BURLY TOBACCO			
BEEF IMPROVEMENT		BEEF	

FIGURE 16

FOOD SUPPLY AGENCY STAGE 3


FARMERS
GOVERNMENT APPOINTEE (CONSUMERS)
DIRECTORS GRAINS MARKETING BOARD
DIRECTORS DAIRY MARKETING BOARD
DIRECTORS MEATS MARKETING BOARD
DIRECTORS EGGS MARKETING BOARD
DIRECTORS MISCELLANEOUS MARKETING BOARD
DIRECTORS FRUIT & VEGETABLE MARKETING BOARD
DIRECTORS TOBACCO MARKETING BOARD
GENERAL FARM ORGANIZATION APPOINTEE
GOVERNMENT APPOINTEE (PUBLIC INTEREST)
FOOD SUPPLY AGENCY BOARD
(CHAIRMEN)
EXECUTIVE DIRECTOR AND GENERAL CO-ORDINATOR
ADMINISTRATIVE COMMITTEE OF RESEARCH AND MARKETING BOARD MANAGERS
MANAGER RESEARCH AND INFORMATION
ECONOMIC RESEARCH
DATA COLLECTION
INVENTORY
MANAGER GRAINS
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER DAIRY
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER MEATS
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER EGGS
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER MISCELLANEOUS
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER FRUIT & VEGETABLE
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER TOBACCO
SALES
PRODUCTION PLANNING
INVENTORY
CANADIAN FARM MANAGEMENT DATA SYSTEM

responsibility for raising price levels to the point where efficient units are receiving adequate resource returns.

It may be useful to describe some of the functions of the F.S.A.:

Sales management

The F.S.A. would act as the sole selling agent for Ontario farmers. Its representatives would be in constant contact with commercial buyers in order to sell farm products at pre-determined prices. As much as possible of this activity would be forward selling under contract. The agency would also promote demand for Ontario products, partly in co-operation with chain stores and partly by seeking out new outlets within and outside Ontario.

Pricing

The F.S.A. would determine, by a combination of research and administration procedures, what is considered to be a properly managed farm of adequate size in Ontario at any particular time. With this knowledge, and given objectives of returns to resources which are specified by negotiation between the G.F.O. and Government, it would establish forward prices. These prices should be sufficiently detailed that individual farmers could relate them directly to their farm operation, and announced sufficiently in advance so that producers face an array of known product prices when making production and investment decisions.

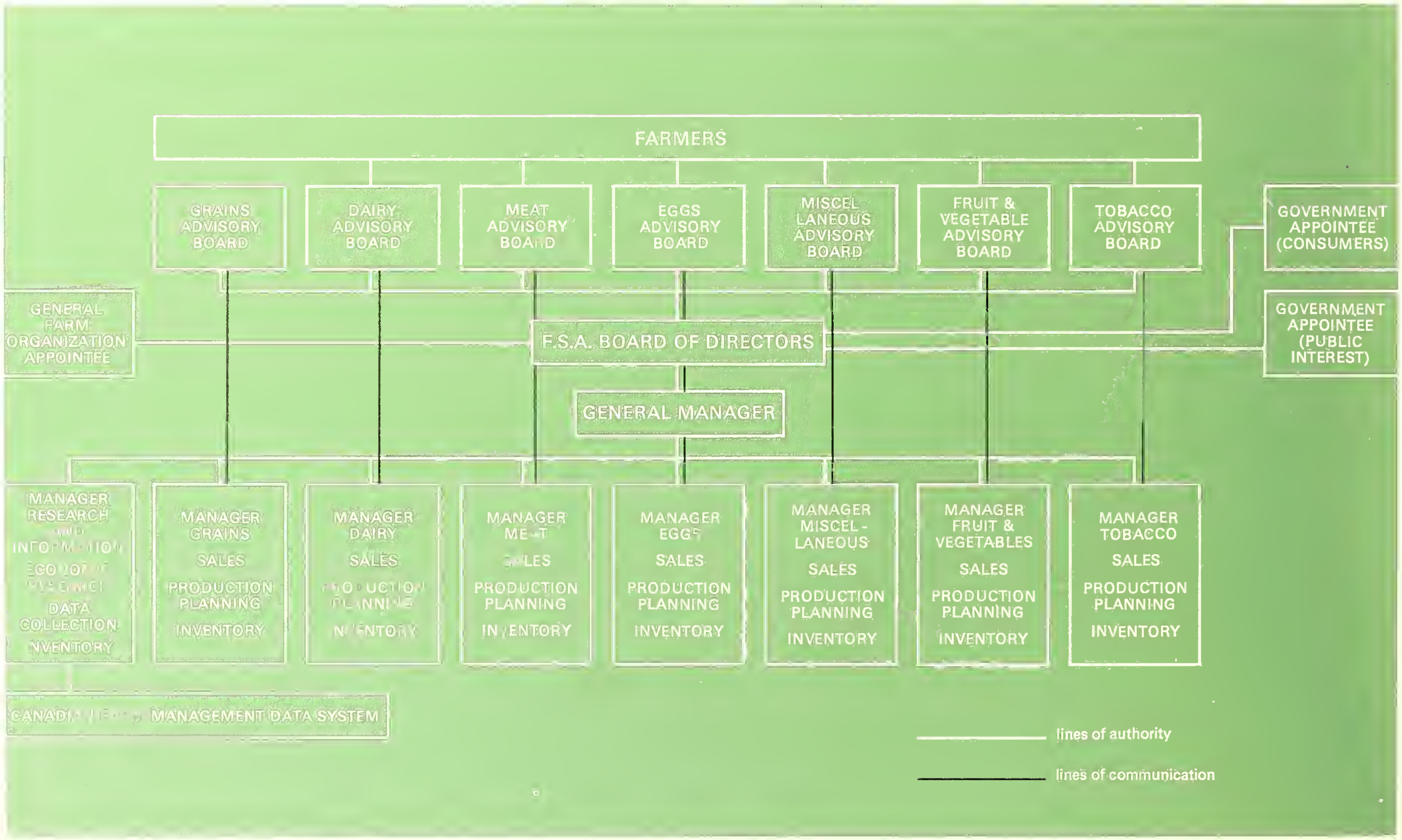
The F.S.A. would have to make detailed estimates of demand in various markets for all commodities over time, an exercise which could be made easier by forward contacts. On the basis of its demand and price decisions it would determine the quantities of output required. An additional important function of the F.S.A. would be to investigate production conditions in competing countries and recommend through the G.F.O. appropriate trade policies for agricultural products originating outside Ontario.

Production management

The F.S.A. in its first stage must register all producers and decide their initial allotments. The F.S.A. should use the Social Insurance Number as the basis for registration. After relating total allotments to total market requirements it would distribute the first set of quotas. From that point forward it would distribute new and transferred quotas. Its objective would be to create the largest possible number of one, two, or three-man, well-managed farms. These would be medium scale farms. The size would be specified in terms of labour requirement rather than output because the output that can be generated by three men working to capacity may increase.

FIGURE 17

FOOD SUPPLY AGENCY
STAGE 4


FARMERS
GRAINS ADVISORY BOARD
DAIRY ADVISORY BOARD
MEAT ADVISORY BOARD
EGGS ADVISORY BOARD
MISCELLANEOUS ADVISORY BOARD
FRUIT & VEGETABLE ADVISORY BOARD
TOBACCO ADVISORY BOARD
GOVERNMENT APPOINTEE (CONSUMERS)
GENERAL FARM ORGANIZATION APPOINTEE
F.S.A. BOARD OF DIRECTORS
GOVERNMENT APPOINTEE (PUBLIC INTEREST)
GENERAL MANAGER
MANAGER RESEARCH AND INFORMATION
ECONOMIC RESEARCH
DATA COLLECTION
INVENTORY
MANAGER GRAINS
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER DAIRY
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER MEAT
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER EGGS
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER MISCEL-LANEOUS
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER FRUIT & VEGETABLES
SALES
PRODUCTION PLANNING
INVENTORY
MANAGER TOBACCO
SALES
PRODUCTION PLANNING
INVENTORY
CANADIAN FARM MANAGEMENT DATA SYSTEM
lines of authority
lines of communication

The F.S.A. would negotiate delivery contracts with producers on the basis of the forward price structure it established. The quantities contracted with any producer over the course of a year would be limited by his annual delivery quota. Within the constraints of its quota structure the F.S.A. would attempt to allocate delivery contracts to minimize the overall cost of production, transportation and storage.

Inventory management

The F.S.A. would arrange for the transportation of farm products between the assembly points where it would take ownership of product under its delivery contracts, and the point of sale or storage. For many commodities it will be necessary to pursue an active storage policy to achieve supply-demand balancing at the forward prices.

Research

Our Committee has put great emphasis on the research arm of the F.S.A. It would be an essential ingredient of any successful marketing programme. Even if no other changes are made, the farmers of Ontario must have at their disposal the very best of data collection, storage and analysis systems, together with a highly competent staff of specialists in the various areas of research and analysis. Figure 18 suggests the areas which would have to be covered.

We have suggested that the F.S.A. operate a data system and have a full staff of researchers and that the Farm Products Marketing Board and G.F.O. have this information available to them so that their own researchers could evaluate and analyse the situation from different viewpoints. If the F.S.A. were not moving ahead to carry out this important task, the G.F.O. should take on the responsibility.

Financing

The Committee recommends that the Food Supply Agency be self-financing. This should be done through a marketing levy which relates the costs of supply management to the benefits received by individual farm operators according to the value of product sold.

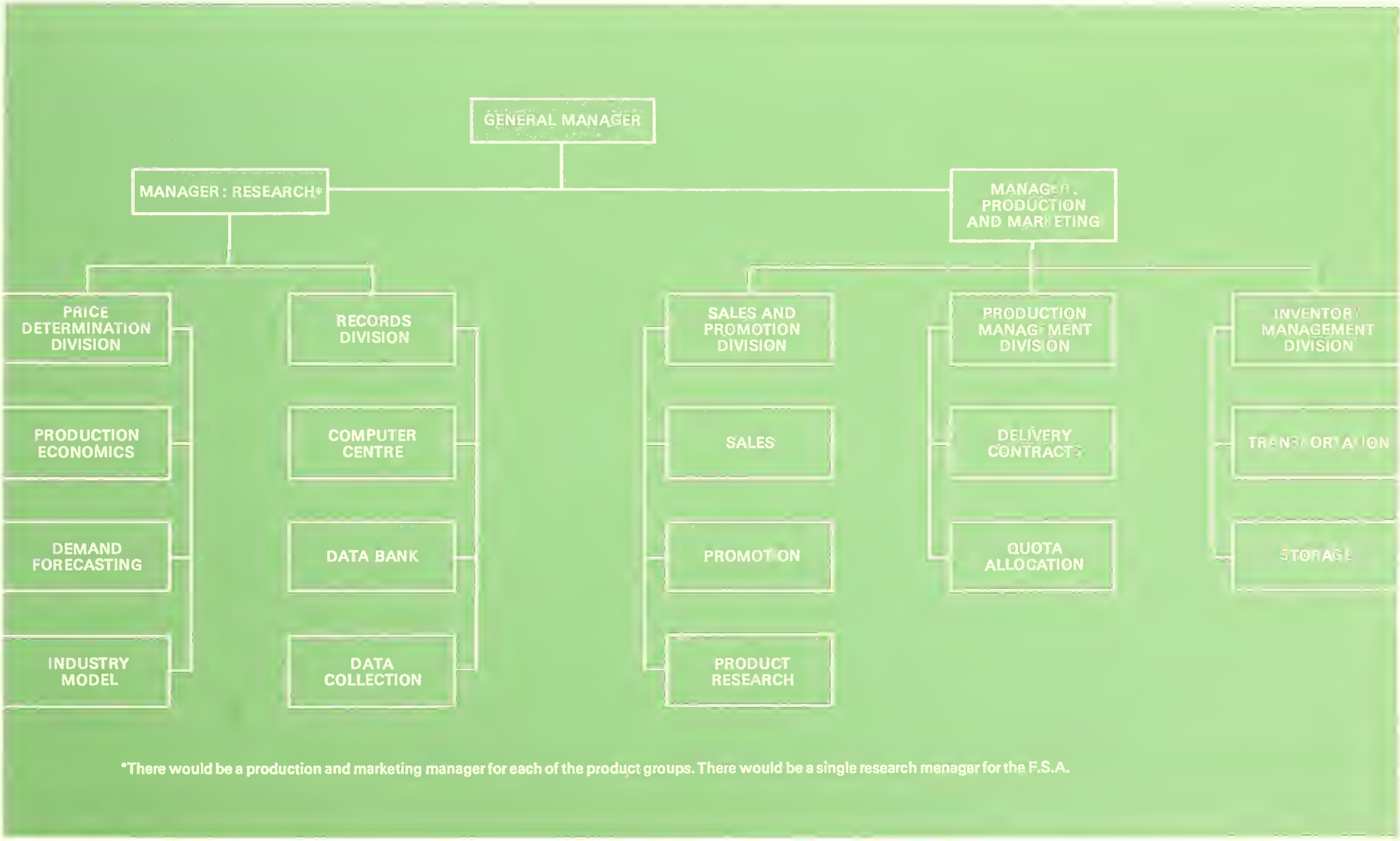
Organization of a centralized Food Supply Agency

The F.S.A. could be organized on a functional basis, with divisions for sales, production management, inventory management, research and pricing, and records. This form of organization, however, takes us too far from the present organization of the industry according to commodity marketing boards and commodity associations.

If the transition from the present situation to Stage IV proves to be necessary, the Committee recommends the following struc-

FIGURE 18

FUNCTIONAL STRUCTURE
OF THE
FOOD SUPPLY AGENCY


GENERAL MANAGER
MANAGER: RESEARCH*
MANAGER: PRODUCTION AND MARKETING
PRICE DETERMINATION DIVISION
PRODUCTION ECONOMICS
DEMAND FORECASTING
INDUSTRY MODEL
RECORDS DIVISION
COMPUTER CENTRE
DATA BANK
DATA COLLECTION
SALES AND PROMOTION DIVISION
SALES
PROMOTION
PRODUCT RESEARCH
PRODUCTION MANAGEMENT DIVISION
DELIVERY CONTRACTS
QUOTA ALLOCATION
INVENTORY MANAGEMENT DIVISION
TRANSPORTATION
STORAGE

*There would be a production and marketing manager for each of the product groups. There would be a single research manager for the F.S.A.

ture as being most practical. The F.S.A. would be headed by a general manager, who would co-ordinate and direct the activities of a number of divisions. Each division would be occupied with the sales, production and inventory management of a major commodity group such as dairy, meat and eggs, fruits and vegetables. In addition there would be a division for economic research, data collection and overall planning which would provide essential information for decision making to the commodity divisions.

The Board of Directors would consist of representatives of commodity groups – advisory boards which would correspond to the administrative divisions of the F.S.A. These advisory boards would be elected by farmers who produce the commodities in each grouping. In addition the government could make two appointments, including a representative of consumers and one representing the public interest. There would also be a representative of the G.F.O. The general manager would be responsible to this board which makes general policy decisions for the F.S.A.

Role of the Farm Products Marketing Board

The Committee recommends that the Government expand the role of the Farm Products Marketing Board to:

1. Evaluate the effectiveness of the F.S.A. in its attempts to achieve policy goals as agreed between the Government and the G.F.O.
2. Ensure that the F.S.A. and others in the marketing chain are operating within the legislation.
3. Recommend changes in the legislation as needed.
4. Hear appeals from producers or others in the marketing chain against actions of the F.S.A.

It would be normal for the F.S.A. to be in close touch with the Farm Products Marketing Board in connection with the technicalities of marketing. Information held by the F.S.A. should be available to the F.P.M.B. for analysis.

Position of consumers in the food marketing system

The industries making up the food marketing system are expected to satisfy consumers' requirements for food to the fullest extent possible at the lowest possible cost. This is a difficult task, since consumers are not a homogeneous group, but have wide differences in food requirements and preference. They also differ in respect to income available for food and related services, living patterns, housing and working conditions.

Whether the maximum welfare of consumers is realized depends primarily on the opportunities to exercise informed choice on a wide range of alternatives available to them.

Food merchandisers claim to play a passive role, arguing that the consumer is supreme. They suggest rather naively that if a consumer buys a product, she evidently wants it, and that it is quite impossible to make a consumer pay for something she does not want. Consumers, on the other hand, claim that food merchandisers are willing and able to influence food purchasing decision by various means which increase their profits.

We are convinced that both food merchandisers and consumers play an active role in the market. Satisfactory performance of the market depends on the extent to which food merchandisers and consumers are prepared to meet their responsibilities.

The influence of food merchandisers over consumer food expenditures is a matter of degree. They cannot influence the basic demand for food. Similarly, consumer desires and tastes for particular classes of food (starches, meats) are based on habit, and change rather slowly over time in response to changes in living conditions.

However, consumer demand for some foods is much more variable. The quantity of a product or brand which a consumer wants to buy is determined by price, availability, location in the store and advertising. All of these factors can be influenced by food merchandisers. There is no doubt that at the level of particular products and brands, both food processors and retailers can and do influence consumer purchasing decisions.

Food merchandisers decide the range of alternate food products available as well as the relative attractiveness of particular products. This includes the number, types, varieties, brands, and quantities of products and their prices. Consumers can react only to the particular combination of alternatives which the food merchandiser has chosen from a host of other combinations. This situation is particularly important in the case of new and improved food products, when the initiative must come largely from the food processors or retailers.

In the second place, food merchandisers influence the opportunities for consumers to exercise informed choice among the alternatives as presented, through altering the range of product quality, package sizes, pricing practices, and the creation of special promotions.

In both respects the food merchandisers clearly are in a position to influence consumer purchasing decisions. The question is whether they exercise this role in the interest of consumers. This would require that food processors and retailers determine more adequately what the consumer's food requirements are and then try to reflect these in the alternatives offered for choice. The Committee does not accept that this is done automatically through price, since price is a very primitive language, which provides messages that are quite incomplete, biassed and difficult to interpret. It is necessary to supplement price with other, more direct means of communication, to provide consumers with an opportunity to express their requirements for foods, some of which cannot be indicated through the price system. What is needed is a continuous dialogue between consumers and the food industry if their realistic requirements are to be satisfied.

Food merchandisers also have a clear responsibility to assist consumers in making informed purchasing decisions. In recent years consumers have been highly critical of various practices which by design or accident have made it almost impossible to buy food wisely.

In this regard, our Committee recommends implementation of a number of improvements to facilitate informed food pur-

chasing as well as to reduce costs of food distribution. These include:

1. More standardization of container volume or weight for specific products.
2. Standardized, more meaningful quality or grade designations.
3. Standardized identification of price.
4. Regulation of promotional expenditures to prevent false or misleading advertising, and to reduce wasteful, non-informative forms of advertising.

Many of these improvements could be adopted readily, but will require government action. It would provide interested consumers with the conditions necessary for exercising informed choice with relative ease.

Consumers, like farmers, are relatively unorganized to protect their interests in the market. They could benefit from group efforts, such as the Consumers' Association of Canada, that would provide them with a stronger voice to press for improvements in the food marketing system. These organizations would also have an important educational role to their members and to consumers generally, by providing information and otherwise assist and encourage them to exercise informed choice in the market.

Potential for improving income of Ontario producers in the market

Opportunities for improving income of Ontario producers in the market can be considered under two main headings. First, there are opportunities for expanding the quantity sold, without requiring a significant reduction in price. Second, there are opportunities for increasing the price to producers, without requiring a significant reduction in quantity sold.

Possibilities for expansion in overall demand for food have been viewed with much pessimism by economists for two reasons.

1. Limitations imposed by the human stomach.
2. Tendency for consumers to spend a static or declining portion of their income on food, as their level of income rises.

The first argument is deceptively simple. It implies that most or all people eat as large a quantity of food as they desire. In view of the renewed concern over widespread poverty in our cities and in rural areas, this conclusion is not warranted. Similarly, poor food consumption habits, with diets deficient in important nutrients, have been demonstrated to be prevalent among the rich as well as the poor.

A related argument is that increased consumption of one food is usually offset by declining consumption of others. Ontario farmers are in the fortunate position of producing a large volume of high-value farm products. Substitution of meats, fruits and vegetables for cheap, bulky foods with low farm-value added (cereals, potatoes) represent a real increase in the demand for goods and services provided by Ontario farmers.

Ontario producers are in the fortunate position of being located close to a large and rapidly growing local market for a variety of food products. Production and marketing programmes must be concentrated on obtaining the largest possible share of this attractive market.

The demand for Ontario products can be expanded by displacing supplies from other areas, provinces or countries provided that effective marketing programmes are developed, including supply management and continuous supply contracts with food distributors.

Opportunities for expansion in demand vary among farm products, and some will experience declines. It is evident, however, that opportunities exist for an expansion of demand for high-value farmer products, and that adjustments in Ontario agriculture, both in production and marketing, must be focussed on realizing this growth potential.

A realistic assessment of efforts for achieving demand expansion must accept the fact that benefits realized by one group of farmers may be at the expense of other farm groups. To condemn these efforts out of hand is unrealistic, since it reflects a refusal to appreciate the conditions under which, in our competitive system, all producers (individually or in groups) seek to obtain a share of consumer expenditures. The marketing system is not neutral in determining the allocation of consumer expenditure. A reasonable degree of aggressiveness by producers of specific commodities must be accepted as unavoidable, and as a legitimate method of protecting their interests. It must also be accepted that some groups, for a variety of reasons, will not be as successful as others. The reasonable thing to do in those cases, is to compensate those groups and/or assist them in improving their position.

The criterion for group action by producers, that the effects must be beneficial to 'farmers as a whole', cannot be interpreted realistically to exclude all actions by one product group that potentially or actually:

1. Do not benefit all members of the group equally,
2. Benefit some or all members of the group at the expense (at least partly) of others.

To insist on such a standard of conduct for organized farm groups is naive, if not hypocritical.

We accept the necessity for much closer co-ordination of marketing policies and programmes among the various agencies to avoid unnecessary wasteful effort and to provide an organized way of preventing or minimizing serious conflicts among them. This could include agreements on the form and extent of promotional efforts.

The extent to which a provincial marketing board, as the sole selling agency for supplies produced in the province, can improve prices realized without causing a significant reduction in sales, depends on two main conditions:

1. Potential: the extent to which opportunities for increased prices exist now or can be created.
2. Techniques: conditions and practices necessary for realizing this potential.

With respect to the potential for price increases there are two schools of thought, both extreme. On the one extreme are the optimists, who expect to realize very large increases in farm prices for many or all farm products by means of marketing boards. On the other extreme are the pessimists, who for one reason or another are almost completely negative about the potential for price increases.

A realistic assessment of potential for increases in prices of Ontario farm products must steer clear of these extreme, simple approaches. To anyone reasonably acquainted with the workings of the food production-marketing system, the optimists evidently over-estimate the potential, while the pessimists tend to discount it excessively.

A reasonable approach is based on the conclusion, which can be demonstrated by factual evidence, that the production and marketing system does not always and everywhere generate the best possible price for producers of any one product.

Evidence has been presented to indicate that in the case of large, specialized producers, net income is extremely sensitive to relatively small price changes. In the case of most farm products there is some potential for improvements in the marketing system, allowing prices to producers to be increased without significantly affecting the quantity sold. The potential is not unlimited, but can be quite significant in terms of its effect on net income.

Some have suggested that this argument, though perhaps valid for one or a few products, cannot be generalized. Whatever small benefits are likely to be realized by producers of one product will be gained at the expense of others. This argument, based on the willingness and ability of consumers to substitute one product for another, is accepted as one which imposes limitations, but does not prevent the realization of benefits to agriculture as a whole. (Net farm income represents less than 10% of total consumer expenditure on foods and services, so a significant increase in net farm income, say 10%, by means of price increases would represent only a 1% increase in costs to consumers.)

It is evident, therefore, that moderate and gradual price increases could make significant contributions to net farm income, while having only a slight impact on consumers' food costs. This condition would be quite consistent with the continuance of the gradual decline in the share of consumer income being spent on food, since it would simply modify slightly the rate of decline, rather than reverse the trend.

The trend to a gradually declining proportion of increasing consumer income being spent on food and related services must be accepted as unavoidable and in fact desirable, but it is possible and appropriate to consider the rate of decline as negotiable.

The potential for increasing prices of farm products in Ontario by means of marketing boards is also influenced by the existence of alternate sources of supplies from other provinces or other countries. It is evident that this form of substitution does not operate directly at the consumer level, but at one or more lower levels in the marketing system.

To the extent that food processors or retailers are willing and able to obtain part or all of their requirements from outside the province, the potential for achieving price increases is limited, but not prevented.

There is room for considerably more realism in dealing with inter-regional (inter-provincial and international) flows of agricultural raw or processed products as they affect the potential for organized marketing.

The position taken here is that inter-regional trade in these products is not desirable as an end in itself. In the case of many farm products imported into Ontario, it would be difficult to demonstrate a substantial difference in production or marketing efficiency as the prime reason for trade. The existence of inter-regional product flow does not by itself indicate efficiency, although conventional wisdom appears to assume this. In fact, inter-regional movements of agricultural products are often temporary and marginal, based on price differences. In no sense do they demonstrate the existence of significant differences in long-run efficiency or costs. Instead, they often reflect accidental, unintentional supply situations.

Efficient producers in Ontario could supply a good deal more of the Ontario demand for most products on a continuous basis more efficiently than producers from any other region. If Ontario producers organize themselves and provide assurance of meeting market requirements efficiently, they can in fact legitimately 'tie up' this market. Consideration will have to be given, however, to the interests of more efficient regular outside suppliers or other regular suppliers, whether efficient or not, who sell a substantial share of their output in Ontario now.

Much of the inter-regional trade in agricultural products is subsidized in one way or another by firms, by industry or by government, on a regular or temporary basis. Under these conditions, inter-regional trade is a way of passing on part of the income problems associated with unmanaged food production in these areas.

This practice becomes unacceptable as soon as one region, Ontario, is prepared to put its house in order by instituting a programme of supply management. If it is prepared to pay the cost of this management programme, it can no longer be expected to share the cost of surplus diversion by others.

The Committee recommends that a more realistic approach be developed with respect to international trade in agricultural products. Domestic producers must be provided with reasonable levels of protection against imported products which come into Ontario below the true cost of production.

Policy with respect to imports of agricultural products must consider the long term interest and be based on reasonably factual answers to three related conditions:

1. Can substantial superiority in efficiency of imports be demonstrated?
2. Will imports be supplied continuously?
3. Will imports make a significant contribution to our requirements?

We believe that satisfactory answers to all these aspects are required to make realistic policy decisions in the area of imports. We are also convinced that imports of many agricultural products fail to meet these conditions.

We recommend that the federal government develop programmes to provide realistic levels of protection against imports which are of little benefit to any member of society but cause serious hardship among agricultural producers from time to time.

This can be done by developing an anti-dumping policy, with specific procedures to be applied to agricultural products. To be effective, the policy must be capable of preventing dumping, since in the case of many farm products reparation for the damage caused by dumping is practically impossible. An anti-dumping programme designed originally for industrial products will require serious modification if it is to be used for agricultural products. Anti-dumping measures must be applied with speed and force if they are to be useful.

The anti-dumping programme could be assisted by programmes under the Agricultural Prices Stabilization Board, which has authority to stabilize prices of any agricultural product in a variety of ways.

Trade policies should be determined by negotiation with farmers through their G.F.O. based on factual presentation of production costs and price levels required for satisfactory resource returns to efficient producers as worked out by the G.F.O. and F.S.A.

How can the market potential be realized?

Opportunities for improvement in performance of the marketing system for farm products have been indicated in summary form. There is no one, simple easy cure. Instead, significant improvements in performance will require a comprehensive approach, and involvement in all major aspects of the marketing system on a regular basis. It will be necessary to commit resources, and to give the F.S.A. the time necessary to design and implement such a programme.

The benefits, when they come, will be based on improvements (large or small, permanent or temporary) in the system. They are likely to be of sufficient magnitude to improve considerably the incomes of larger, more specialized producers, who are commercial farmers in every way, having made the commitments necessary to achieve a reasonable level of efficiency, and who are prepared to gear their production to the legitimate requirements of consumers and marketers. No realistic marketing programme can be expected to improve significantly the incomes of those who for one reason or another do not meet those two conditions of commercial agriculture.

The opportunities for improvement in performance of the marketing system, as indicated in Figure 19, must not be considered entirely as alternatives. To be effective at all, marketing boards cannot avoid becoming involved in several aspects of the market. The extent of involvement and the relative emphasis given to specific aspects listed under these headings will differ from product to product, just as decisions must be based on the need for the potential benefits from marketing board action.

On this basis, few if any of the marketing boards presently operating in Ontario have a comprehensive programme. They have completely disregarded some areas with considerable potential and have made only marginal commitments in others.

Effective merchandising to expand consumer demand for Ontario-produced food requires a comprehensive package of services (new product development, better packaging, quality improvements, better market coverage and distribution methods, etc.). The meagre money and attention given to this area has been mainly devoted to product promotion. This emphasis is at least premature, and probably inappropriate.

FIGURE 19

Opportunities for improvement in the performance
of the marketing system
for Ontario Agricultural Products

Increasing consumer expenditures

A. Expand consumer demand

1. Encourage development of new or improved products or new uses for existing products.
2. Encourage improvement in product quality, appearance, convenience in use, packaging.
3. Ensure more effective distribution.
    quality maintenance through marketing system
    better market coverage
    distribution methods adapted to changing consumer requirements
    subsidization of consumption.

B. Co-ordinate or regulate marketing to increase returns from a given demand, without restricting production

1. Exert more pressure on the food marketers to achieve the highest possible consumer prices, given supply-demand conditions.
2. Influence geographic distribution and pricing of product.
3. Influence distribution and pricing over time.
4. Influence distribution and pricing of products into different forms and uses (fresh, processed).
5. Influence distribution and pricing among consumers by price and product differentiation.
6. Influence quantity marketed by adjustable product specifications (quality, minimum size standards).

C. Co-ordinate or regulate production to ensure that the quantity produced can be marketed at pre-determined price levels

1. Negotiate minimum prices and other conditions of sale.
2. Introduce voluntary supply management with or without a two-price system (co-ordinated production decisions).
3. Introduce compulsory supply management by means of:
    production quotas
    price disincentives.

Increasing farmers' share of consumer food expenditures

A. Reduce need for and opportunities for profit

1. Reducing market risks.
2. Increasing competition.
3. Improving pricing methods.

B. Reduce marketing costs

1. Improve the efficiency of existing marketing agencies.
2. Rationalize the marketing system
    reduce, simplify, eliminate marketing services and channels
    shift responsibility and cost of marketing services
    improve vertical and horizontal co-ordination.

C. Vertical integration into marketing by producers

1. In competition with present agencies.
2. By eliminating present agencies.

COOL
treatment
because
Garden Fresh
FOR
TASTY SPRINGTIME SALADS
39
GREENHOUSE
TOMATOES
39
39

Effectiveness requires a continuous review of the adequacy of existing products and of marketing practices, and the development of ways and means of improving performance. Marketing boards must take a leading role, but must co-operate with and pressure marketing firms (processors and distributors) to achieve improvements. Boards must view processors and distributors as part of their sales organization, and must see to it that they perform satisfactorily.

Summary

Effective action by a marketing board can realize benefits for its producer-members. The main conditions for success are:

1. Determination of objectives or goals

This will require some reconciliation where objectives conflict or contradict. Objectives, to be attainable, must be based on a thorough understanding of the marketing system and current practices. Objectives must be reasonable as well as realistic. Unreasonable, extreme goals and pre-occupation with securing maximum immediate benefits may be self-defeating.

2. Development of the marketing programme

The marketing programme must meet several conditions. It must be designed to meet all the objectives and it must be workable in a mechanical sense. It must also be acceptable to the membership and to other interested parties. If the programme is well conceived, acceptability is largely a matter of effective communication. Regardless of what programme is developed it is impossible to please everyone equally. In developing a plan, and in securing acceptance, it is important to design a programme to meet the legitimate requirements of the trade more effectively than previous arrangements. This provides the basis for securing benefits for the members.

3. Operation of the marketing programme

This is largely the role of the administrators. Effectiveness requires a highly qualified and well-motivated staff and the necessary delegation of executive power by the policy makers. Effectiveness of marketing is also a function of time since substantial benefits do not materialize overnight. Success will require continuous expansion and upgrading of the information base as well as periodic review and modification of programmes. Finally producer-members must be prepared to provide their marketing organization with the financial resources necessary for success. Lack of adequate financing dooms a marketing plan from the start.

Major limitations to marketing objectives will be the following:

1. The marketing programme cannot prevent changes in price or sales, which are due to changes in consumer tastes, requirements, or purchasing power. These changes generally occur very slowly over a period of years. The marketing programme can be effective in ensuring that the marketing system at any time realizes maximum prices and sales that accurately reflect prevailing consumer wants, requirements or purchasing power. It cannot be taken for granted that the marketing system will ensure this, without direct and organized producer participation.

2. Producers cannot expect marketers (processors, retailers) to pay prices for goods and related services that are far in excess of those asked by alternate (outside) sources which can provide equivalent supplies in significant volume, on a reasonably continuous basis. The marketing programme can be effective in ensuring that prices paid by marketers reflect value provided, in all its aspects – quantity, quality, uniformity, continuity, delivery, etc. Again producers cannot take for granted that marketers will automatically pay such prices. Without an effective marketing programme, prices will be 'competitive' with those from periodic or marginal suppliers who are usually in no position to supply a major share of market requirements on a regular basis. The F.S.A. should sign long term contracts to supply requirements and would be able and willing to import when necessary to meet its contract terms.

To operate effectively, the F.S.A. will need the backing of the Federal Department of Trade and Commerce so that realistic policies with respect to imports can be worked out.

Chapter 10: The General Farm Organization

Our Committee and the farmers of Ontario have long been concerned about the voice they have in the present and future state of their industry. As most of this report shows, farmers are rightly concerned about their income situation and the deterioration of their position in the economy of Ontario. They have become more and more efficient and yet have been inadequately rewarded for their efficiency.

In their attempt to achieve what they have considered to be a fair share of the national income, farmers have organized political pressure groups.

At the present, there are two major general organizations which speak for farmers in Ontario – the Ontario Farmers' Union and the Ontario Federation of Agriculture. The inability of these two organizations to discover common ground is a matter for great concern, not to say frustration, at a time when unity is so important.

The Ontario Farmers' Union is a direct membership organization which is highly militant.

The Ontario Federation of Agriculture is a federation of 81 organizations of all kinds associated with agriculture and farm people. The ability of the marketing boards to withdraw their support weakens the position of the O.F.A. in dealing with the policies of these boards. Much less militant than the O.F.U., the O.F.A. prefers quiet discussion with government to the confrontation tactics of its rival.

At present the influence of farmers is paralyzed by the failure to present a united front. No clear statement of position or focus emerges from the rivalry of the two organizations.

What is needed is the co-ordination of the action of all farmers in one General Farm Organization, to develop policy positions on issues affecting the farm population and to press for government action in line with these policies.

Specific purposes of the General Farm Organization

The Committee has recommended the establishment of a Food Supply Agency which would be primarily concerned with the marketing function.

Farmers need a strong bargaining agent which can stand up to farm supply companies, processors and distributors. The role of the Food Supply Agency would be to market products to the best advantage of the farmer.

However, this marketing function would not necessarily be sufficient to ensure that farmers receive an adequate income. The Food Supply Agency would plan the flow of product and manage it in such a way that farmers would receive the best possible price under existing market conditions. This price may fall short of bringing to the operators of well-managed farms of adequate size a competitive return to resources. It may still leave many farmers with inadequate resources in an unbearably low income situation. Farmers will have to face society and its government with a united voice to solve this problem. This is a responsibility of the one General Farm Organization.

The policy of the General Farm Organization should be to ensure that adequate incomes are earned by the operators of a maximum number of efficient farms.

The scope of the G.F.O. must extend beyond purely agricultural problems. It should negotiate with governments to establish the rates of return to resources which are used to establish commodity prices. It should work out with government the policies which determine the principles of quota allocation. It should represent farmers and the Food Supply Agency to governments on all policies related to trade, taxation, land use, input costs, and adjustment. Where adequate rates of return to resources are not available through the market system the G.F.O. should negotiate with governments for appropriate compensation to efficient farmers, through direct payments or subsidies.

The G.F.O. must give particular attention to the problems of adjustment, if the agricultural industry is to become more efficient. It must negotiate such adjustment programmes as rural regional development and income maintenance for farmers who are forced to adjust and would otherwise bear all the costs.

Otherwise, many farmers would have no incentive to support a supply management policy which is incapable of improving their living conditions.

Roles and responsibilities of the General Farm Organization

The General Farm Organization of Ontario would have the following mandate:

1. To search for ways to improve and maintain the income of farmers and their families having regard to the particular aspects of rural life.
2. To represent farmers officially before governments and their departments, before other sectors of the agriculture industry and before society in general.
3. To develop a process of negotiation with government and industry.
4. To develop and negotiate with government and industry short, medium and long-term programmes for farmers.
5. To evaluate, on behalf of the farmers, the policies and procedures of the Food Supply Agency.
6. To be the official link with national farm organizations.
7. To become the provincial arm of one national General Farm Organization.
8. To provide members with appropriate additional services as need arises.

Creation of the G.F.O.

Perhaps the major source of confusion in the various attempts which have been made to form a single general farm organization has been the lack of agreement about what the organization is supposed to represent: other smaller organizations, farm products or people. The Committee maintains that the G.F.O. must represent people. It must represent all farmers in Ontario, and the appropriate principle of representation is one man, one vote.

It is important that the G.F.O. avoid being tied into the routine administration of marketing boards, the Food Supply Agency, or any other organization with a primarily economic or administrative function. It must concentrate its efforts in the field of broad policy formulation.

This Committee has attempted to clarify the issues by divorcing the marketing function from the policy function. The F.S.A. would be designed to achieve the best possible prices for farmers under existing market conditions, but its routine administration would not be subject to direct interference by farmers. Pressure must be channelled through the Board of the F.S.A. The G.F.O. would be primarily a policy organization which must avoid responsibility for routine administration of marketing. It would be interested in a range of issues of which marketing and prices are only a part. This separation of the two functions, policy and administration, should greatly clarify the confused situation which now prevails and help farmers understand the real issues.

To be effective in this policy role, the G.F.O. would require sources of financing which are independent of government or any other organization. In the opinion of the Committee, a combination of direct membership fee and a levy on all products sold would guarantee adequate funds and encourage the active participation of most farmers.

The establishment, financing and accreditation of the G.F.O. requires provincial government legislation. The enabling legislation should be passed and proclaimed when farmers have made the arrangements necessary for the G.F.O. On proclamation, the G.F.O. should be certified as the official voice of Ontario farmers. Hopefully, the O.F.U. and the O.F.A. can co-operate in forming the G.F.O. In the event that either one fails to co-operate, the other should proceed with all practical haste to hold elections and form the basic structures.

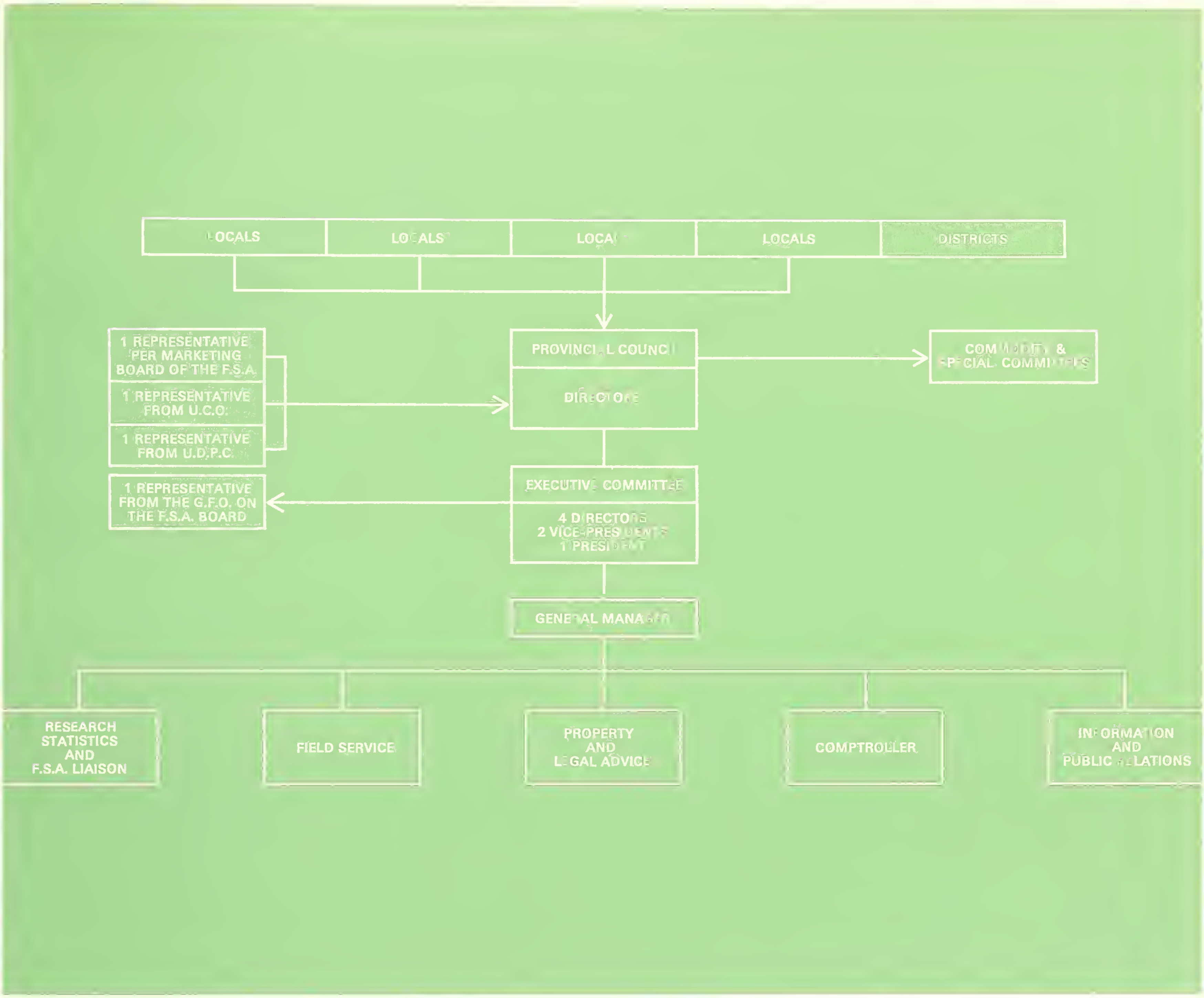
Membership

The General Farm Organization should offer a direct voluntary membership to any farmer who produces and markets one or more farm products. Members would join the G.F.O. at the local level.

These members would have the opportunity to vote, to hold office and to receive services. A minimum membership fee

FIGURE 20

GENERAL
FARM ORGANIZATION


LOCALS
LOCALS
LOCALS
LOCALS
DISTRICTS
1 REPRESENTATIVE PER MARKETING BOARD OF THE F.S.A.
1 REPRESENTATIVE FROM U.C.O.
1 REPRESENTATIVE FROM U.D.P.C.
PROVINCIAL COUNCIL
DIRECTORS
COMMODITY & SPECIAL COMMITTEES
1 REPRESENTATIVE FROM THE G.F.O. ON THE F.S.A. BOARD
EXECUTIVE COMMITTEE
4 DIRECTORS
2 VICE-PRESIDENTS
1 PRESIDENT
GENERAL MANAGER
RESEARCH STATISTICS AND F.S.A. LIAISON
FIELD SERVICE
PROPERTY AND LEGAL ADVICE
COMPTROLLER
INFORMATION AND PUBLIC RELATIONS

would have to be established at a level to be determined. The membership fee should reflect the services offered by the Organization.

Structure and representation

Locals should be established on a township or a community level based on one local for roughly every thousand farmers. In certain areas, sub-locals may be necessary.

Members would elect local official representatives to the district level. There would probably be a district for every three to five locals depending on the concentration of farmers in an area.

The locals would deal with matters affecting the welfare of their members. They would also be concerned with general policy matters.

The districts would serve to co-ordinate activities of locals and the services to members within the district.

At the provincial level, the G.F.O. would co-ordinate activities of all districts and locals and hold an annual convention. See Figure 20.

The provincial council of the G.F.O. would be composed of one member elected by each local or district on the basis of one delegate per 1,000 farmers. Each board or groups of boards under the Food Supply Agency would also elect one representative to the provincial council. The United Co-operatives of Ontario and the United Dairy Producers Co-operative would each elect one representative to the provincial council.

The provincial convention would take place annually. Three delegates for each thousand farmers would be elected to the annual convention. As well, each marketing board of the Food Supply Agency would elect three delegates.

The United Co-operatives of Ontario and the United Dairy Producers Co-operative also would have three delegates each.

The annual convention of the G.F.O. would elect from among its members a president and two vice-presidents. The Executive Committee would consist of the president, two vice-presidents and four directors elected by the Provincial Council of the G.F.O.

Agricultural commodity involvement

As mentioned earlier, the General Farm Organization has a policy and an evaluation role to play and should not be involved directly in the day-to-day movement of products on the market. This is not to say that the G.F.O. should not be concerned with marketing particularly in terms of long run price and income considerations.

The G.F.O. must be closely associated with the Food Supply Agency, particularly at the Board level. Our Committee proposes that one of the members of the Executive Committee of the Provincial Council sit on the Board of the Food Supply Agency. This would ensure a direct line of communication between the F.S.A. and the G.F.O. and would permit both organizations to deal quickly and effectively with problems of a policy nature that might arise.

The Provincial Council of the G.F.O. would have various committees including commodity committees. The representatives of each marketing board to the G.F.O. would form part of the appropriate commodity committee. This would provide a direct line of communication between the G.F.O. and F.S.A. commodity groups. See Figure 21.

Our Committee further suggests that no person holding office on the F.S.A. be also a sitting director representing a local of the G.F.O. If the Provincial Council of the G.F.O. is to perform a useful role in evaluating the performance of the F.S.A., it must ensure that its members are detached from the F.S.A. functions.

The G.F.O. should evaluate continuously the policies and activities of the Ontario Department of Agriculture and Food, the Government of Ontario and the Government of Canada, on all matters that relate to the welfare of the agricultural community.

The G.F.O. must have at its disposal a competent staff which will permit it to function effectively. A strong research arm is required to develop position papers for the G.F.O. and provide it with well-documented material. This research group should have the information made available by the marketing boards to the research manager of the Food Supply Agency. It would also have the information of the Canadian Farm Management Data System.

The permanent staff of the G.F.O. would include a field service department which would serve farmers at the local or district level. The field service would be particularly concerned with maintaining continuous liaison between farmer members and the work of the G.F.O. One of its important functions would be to help the local members at their meetings and furnish them with information developed by the G.F.O. The field service department would be in a position to advise farmers on commodity problems and on issues related to property taxation and other matters.

Finally, the G.F.O. should publish a magazine or newspaper to disseminate knowledge and advice and keep in continuous touch with its membership.

Community development

As stated earlier, the G.F.O. must be concerned with policies that deal not only with the agricultural industry and the marketing of commodities but also with the thousands of farmers who require acceptable adjustment policies.

Our Committee is most concerned with the people who are either trapped in agriculture, who are to be trapped into the industry through wrong advice or for any other reason, or who have been dislodged from agriculture and have nowhere to go.

The G.F.O. has a difficult but essential responsibility to make every effort to ensure that there are suitable alternatives available to its members and that these members are made fully aware of these alternatives.

Our Committee suggests that the field service staff of the G.F.O. must be equipped to deal, in conjunction with the field staff of various government departments, with issues related to regional development and adjustment of people into other occupations.

Because governments in Canada have been slow in developing suitable long term policies for farm and rural people, the G.F.O. must accept responsibility to press for immediate action on economic development in rural areas and income maintenance programmes.

Policies of rural regional economic development which will draw people out of agriculture are essential if supply management policies are to be effective. Without the development of broad regional policies by the Government of Ontario, attempts by the farming community to solve farming problems will be in vain. Such attempts will only lead to more hardship than presently exists in rural areas.

Financing the G.F.O.

A direct voluntary membership fee would be collected. In addition, a compulsory check-off would be made on the basis of a formula established on the value of all farm products sold.

The local or district of the G.F.O. would be financed by the membership fee and a grant from the provincial G.F.O.

In the opinion of the Committee, the present two farm organizations have been seriously underfinanced. The G.F.O. must prepare well-documented briefs to governments, give proper service to their farmer members and pay a decent yearly salary to their directors. To cover these expenses adequately, the annual budget figure for the G.F.O. would probably be in excess of 2.5 million dollars.

Establishment of the G.F.O.

Our Committee recommends that if farmers indicate clearly to the Minister their desire for a G.F.O. as outlined in this report,

he should proceed to conduct a producer vote. The vote should require a 60% majority of those voting to favour establishment of a General Farm Organization and a compulsory producer check-off on all farm products produced and sold in Ontario to finance the organization. The same voting formula would apply in a vote for dissolution.

Upon the establishment of the G.F.O. in Ontario, meetings of farmers would elect local officers and delegates to the provincial council and convention of the G.F.O.

The ultimate goal of the Ontario General Farm Organization must be to assist in the establishment of a National G.F.O. Only at the national level can organized agriculture achieve its full potential.

Chapter 11: Commodity by commodity analysis

Marketing board co-ordination

This chapter is a recapitulation of the argument presented so far, together with a number of general comments and recommendations on commodity marketing in Ontario.

The agricultural industry has consistently produced more than the market has been prepared to accept at prices which would give the farmer a fair return to his resources. Overproduction has been irregular. There have been periods when farmers failed to satisfy the market for a period of time, with the result that prices have risen sharply. This has led in some cases to overcommitment of land and capital to farming. Once committed, these resources have not earned a return comparable to their potential return in other uses.

The agricultural industry has been unable to match its output to the needs of the market because it is made up of thousands of independent production units. Production decisions are not co-ordinated but are often made in an effort to out-guess the industry as a whole. Individual farmers must make long term investments without any worthwhile information about long term product prices. Once made, the investments have little salvage value and production will continue with little regard to falling prices. For those farmers who lack training or the attitudes necessary to move to other jobs, the farm is a haven from the economic system rather than a part of it. They will accept low returns rather than leave the land. Even if prices on the farm were increased sharply, these farmers could not earn an adequate income, for their output is small.

The Committee believes that the only solution to the problem of overproduction and low farm incomes is to introduce a form of supply management as discussed earlier. Not only will overproduction be corrected, but production cycles and price uncertainty can be minimized and the farmer can be given a sound basis for long-term planning.

The function of supply management is critical if the production of food products is to be matched to the requirements of the market. As presently organized, the food marketing system does not market food effectively. There is no conscious attempt to ensure that the producer is producing what the consumer wants. Producers receive no accurate information from retailers, processors or consumers to assist them in producing to the demands of the market.

If producers are to become an integral part of the food marketing chain, they must develop a strong marketing organization

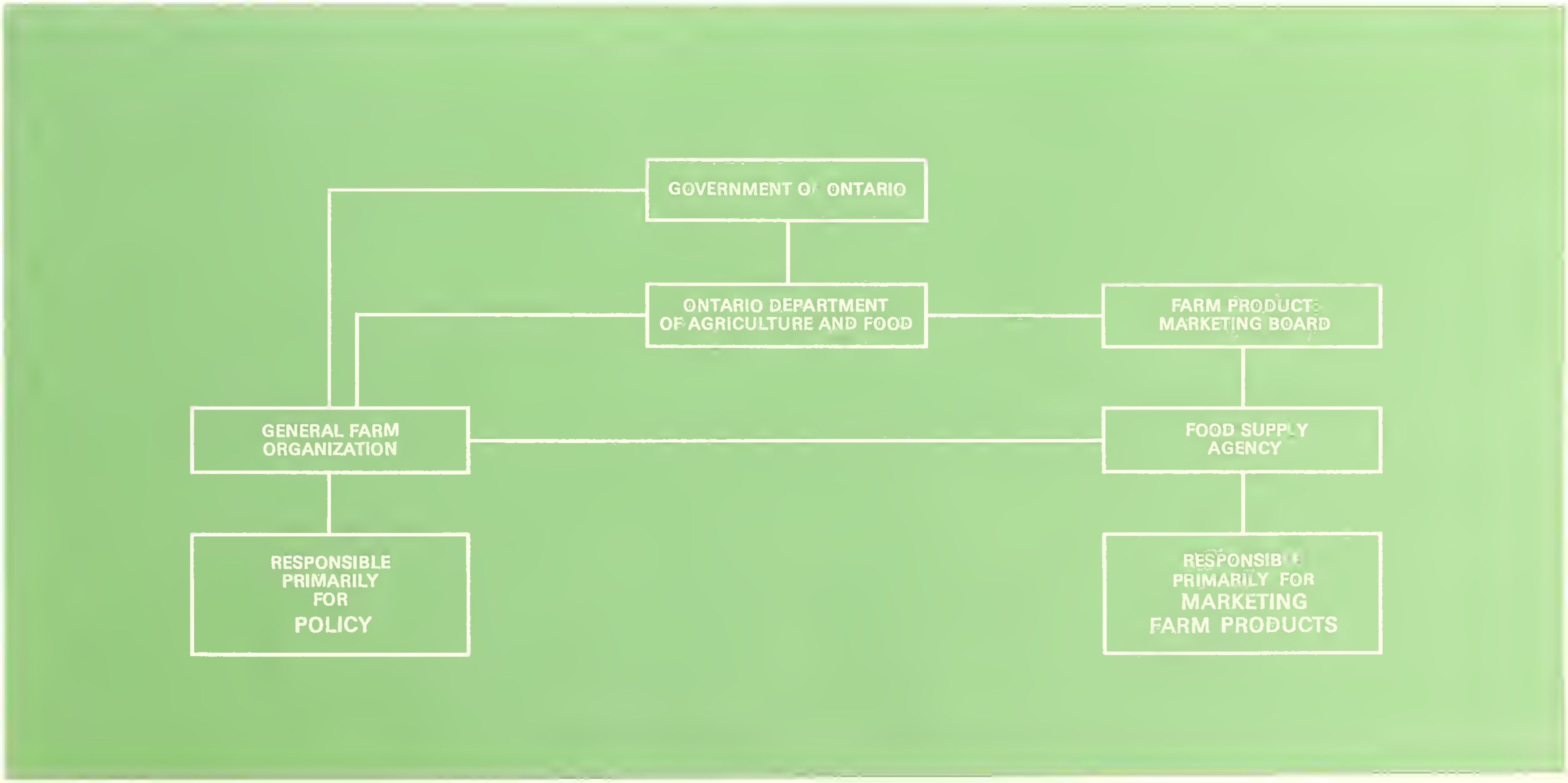

GOVERNMENT OF ONTARIO
ONTARIO DEPARTMENT OF AGRICULTURE AND FOOD
FARM PRODUCTS MARKETING BOARD
GENERAL FARM ORGANIZATION
FOOD SUPPLY AGENCY
RESPONSIBLE PRIMARILY FOR POLICY
RESPONSIBLE PRIMARILY FOR MARKETING FARM PRODUCTS

FIGURE 21

LINES
OF COMMUNICATION
BETWEEN THE G.F.O.,
THE F.S.A.
AND GOVERNMENT

to represent them. The marketing organization can provide producers with information which they need to perfect a 'market sense'. It can create systematic contacts with consumers, retailers and processors. It can inform the producer about weaknesses in his production and marketing techniques. It can protect the interests of the producer in bargaining with other parts of the food chain.

The food marketing system is adapting to changing conditions. Producers have created marketing boards to assemble and sell their product to processors. Processors have been forced to change their techniques and to create new facilities. Wholesalers and retailers are in the process of streamlining their part of the food chain.

However, much remains to be done. Marketing costs are higher than they should be, particularly in the processing and retailing parts of the food chain. While the producer of the raw product has been under severe price pressure and has been forced to improve his techniques in order to survive, there is evidence that competitive pressures have not forced processors and retailers to move as rapidly as the farmer. The farmer is in a weaker bargaining position, even when he is represented by a marketing board. Retailers, wholesalers and processors can pass price cuts back to the farmer without fear of retaliation. The only course open to the farmer is effective supply management and consolidation of marketing boards which will include all products in a co-ordinated bargaining agency. If fair treatment for all farmers is to be expected, it is essential that eventually the agency represent more than a single group of products.

The Committee believes that in the evolution of the F.S.A., grouping the present boards into larger and more efficient agency-type boards, will gain substantial power for the farmer in the food market. The unit cost of marketing will be reduced while services can be greatly improved. Marketing boards will be able to resolve serious conflicts among groups of producers and provide new services.

Some of the services which members should receive from grouped marketing boards are:

1. A data bank for continuous assessment of marketing conditions and terms of sale
2. Improved accounting service and farm accounting assistance through specific application of CANFARM data to each commodity
3. Improved research and marketing advice to implement the marketing plan for the commodity more effectively
4. More powerful marketing pressure to ensure that farmer objectives are represented in the bargaining process.

Our Committee has concentrated on the changes needed in marketing and organization in Ontario. We recognize that co-ordinated national action will be needed to achieve maximum benefits for Ontario farmers. We consider that the type of marketing agency and programmes that we have suggested for Ontario are needed nationally but until these national organizations and programmes can be achieved our farmers should move ahead as rapidly as possible in Ontario. Ontario farmers should be prepared to involve themselves in moves toward better national organizations as soon as this appears to be in their best interests.

The following outline of specific commodity problems is not intended to provide a comprehensive view of food marketing in Ontario. A more complete appraisal was undertaken in a series of seven research documents which have been used by the Committee in the development of this report. We have attempted merely to sketch the more pressing problems facing each group of producers in the marketing of their commodities and to indicate the nature of some of the alternatives open to them.

Grain marketing

The production of cash grains in Ontario has been expanding rapidly, with output of corn and soya beans increasing dramatically. New areas of production are opening up as new varieties are developed and many farmers have switched from winter wheat, sugar-beets, and dairying to grains for use both on the farm and for sale.

Grain storage facilities have not expanded rapidly enough to meet demand, particularly in newer production areas. Local elevators have little or no storage capacity for hire by farmers and producers are forced to sell the product at time of harvest, when prices are low. Drying capacity is insufficient, forcing farmers to invest in on-farm drying facilities. In many elevators, handling and loading facilities for receiving and shipping are inadequate or outmoded and producers suffer serious time losses during harvest.

Transportation of grain in Ontario is usually by rail at relatively high rates. Terminal elevator capacity at water points is unavailable in southwestern Ontario, forcing producers to ship to eastern markets by rail or truck. A shortage of boxcars at harvest-time complicates the situation and results in unnecessarily low prices for several months each year.

Grain producers have a weak bargaining position because of lack of storage facilities. In most cases, they are forced to market their grain through a local elevator. They are often committed to a particular elevator by a formal or informal contract arrangement which provides them with supplies during the production season but which forces them to market their grain on terms dictated by the operator of the elevator. The necessity to pay this debt at harvest time forces immediate sale, although much better terms could be obtained through drying, storage and later sale.

Finally, grain producers in Ontario are forced to compete with American growers of corn and soya beans. They are able to compete with American growers on the basis of production efficiency, but much of the American production is subsidized by the U.S. government. The U.S. corn programme for example, provides for many producers the option of storage with a loan guarantee of $1.05 per bushel. In addition, U.S. producers may retire up to half their acres from production of corn with assurance of a substantial acreage payment on most of the retired acres. The payment can range up to $90 per acre, depending on production per acre in the base year. U.S. production expands

in the face of falling free market prices. Free corn produced outside the programme in the past has been able to move into Ontario at prices below the $1.05 loan price, in competition with Ontario production.

The Committee recommends that an Ontario Grains Marketing Board should be organized to represent producers of all cash grains. The Board should include the present Winter Wheat Producers' Marketing Board, the Bean Producers' Marketing Board and the Ontario Soya Bean Growers' Marketing Board. It should institute a programme leading to the formation of a corn marketing plan as soon as possible to ensure that corn producers receive adequate marketing assistance. Plans should also be established for other cash grains such as oats, barley and rye.

An early responsibility of the Grain Marketing Board should be to assess the farm and public storage and drying facilities available to determine the nature and extent of improvements required. If facilities are inadequate, the Board should ensure that they be made available. The Board should consider very carefully the relative costs and benefits of farm and elevator storage to ensure that the most efficient approach is taken to the creation of new facilities.

The Board should ensure that harvesting bottlenecks are eliminated. The Farm Machinery Syndicates Credit Act should be used for financing the construction of storage and drying facilities on the farm. It should negotiate improved services, expanded storage and drying facilities and more flexible terms with private elevator operators.

The Board should press for solution of transportation problems related to the storage and shipment of Ontario grains. This will require a comprehensive programme, including the creation of storage and drying facilities at water points. These facilities might be developed by the Board or contracted to private operators on terms negotiated by the Board. While water-based facilities have not been considered feasible from the point of view of private operators, they may well be justified and feasible from the point of view of industry development.

The Board should move immediately to co-ordinate the decisions of producers of grains to ensure that sufficient grains are produced for the market where Ontario enjoys trading advantages.

The Board should negotiate uniform conditions of sale, including moisture discount rates, drying and storage charges and methods for determining grade and moisture content. It should endeavour to negotiate forward prices for grains and should develop appropriate programmes for improving and stabilizing the producer price.

The Board may find it necessary to control the importation of all grains used in the province, in the manner of the Canadian Wheat Board. It would be necessary to work closely with the Wheat Board and the Eastern Canadian Livestock Feed Board in creating such a programme.

Winter wheat

Some 22,000 farmers in Ontario grow winter wheat. About 14,000 sell all or part of their production, while the rest grow small acreages as part of a crop rotation programme, and use the crop for feeding livestock.

The Ontario Wheat Producers' Marketing Board has long operated a two-price system which provides a relatively high price for wheat used for milling and specialty products. The surplus wheat is marketed at export or feed wheat prices. The higher average price made possible by this system has encouraged grain sales beyond the needs of the milling market. The growth in marketings has reduced the effectiveness of the programme.

The Committee recommends that winter wheat production should be regulated by the Ontario Grains Marketing Board to ensure that the needs of the market are fully met, but that surplus production is not allowed to depress prices below the cost of production. Two-price or quota systems could be used to manage supply.

Corn

About 22,000 farmers in Ontario grow corn for sale as grain. Production of corn as a cash crop has increased rapidly but demand has grown even more rapidly, and over 30 million bushels of grain corn are imported yearly from the United States to Eastern Canada for livestock feed. The volume reported has been increasing despite rapidly declining Canadian corn prices.

Half of Ontario's grain corn crop is fed to livestock on the farm where it is produced. This is a good alternative for most livestock producers, since the corn may be marketed through livestock at substantially higher prices than can be received on the cash corn market. Since the livestock feeder can use the corn in a high-moisture state by ensiling it, he can eliminate the costly drying process.

For farmers who insist on marketing dry shelled corn, prices have been declining rapidly and continuously. The voluntary corn programme in the United States provides subsidization of production which may be shipped into Ontario at below the price received by a farmer in the programme.

Inadequate drying, receiving and storage facilities result in chaotic marketing conditions for Ontario producers at harvest time and contribute to low prices at the farm. While U.S. corn typically moves by water to Ontario and Quebec markets, Ontario corn travels by rail and truck at substantially higher rates. Congestion of rail and truck facilities at harvest time reduces the bargaining position of the Ontario cash corn grower still further.

The Committee recommends that all corn which enters off-farm trade be brought under the control of the Ontario Grains Marketing Board. This will necessitate a vote of producers, but the Committee believes that the case for a functioning corn marketing agency is so strong that such a vote would be approved by a majority of producers.

Corn production should be expanded in an orderly way, under the Grains Marketing Board. Research indicates that Ontario producers are competitive with U.S. corn growers and that further efficiencies can be built into the Ontario production-marketing system to reduce costs further. This should allow Ontario producers to replace imports of corn during the next ten years.

The Committee further recommends that the effective level of

subsidization of U.S. corn be determined and that steps be taken to ensure that Ontario farmers are not forced to compete with the U.S. Treasury.

The Grains Marketing Board should co-ordinate production decisions with marketing requirements by means of supply contracts between the Board and producers.

As with winter wheat, the Grain Marketing Board should take steps to improve the capacity and efficiency of elevator storage and drying facilities.

The Board should:

1. Obtain sufficient producer-controlled public storage capacity to reduce the need for forced sale at harvest
2. Set minimum prices to elevators
3. Negotiate maximum charges with grain handlers
4. Negotiate, as the sole selling agent for the producer, long-term sales agreements with large-scale, continuous buyers
5. Examine the feasibility of multiple-price arrangements to reflect the various uses for corn in products such as cereals, starch, whisky
6. Reduce transportation problems by negotiating with private and public agencies for improvements in facilities and service
7. Reduce transportation rates by the use of water facilities.

Soya beans

About 7,000 farmers in Ontario grow soya beans. Production has expanded and it appears that new varieties of soya beans will expand the acreage suitable for production. Two-thirds of the soya beans processed in Ontario are now imported from the U.S. at prices determined by U.S. acreage retirement and soya bean support programmes.

The Committee has concluded that a further expansion of Ontario production could be accomplished with current technology and without reducing prices below the U.S. support price level. The soya bean oil market is influenced by prices of competing oils, including fish oil.

Federal trade and tariff policy over the years has discouraged soya bean production in Ontario, while continuing to provide substantial protection for processors. Soya beans can be imported duty-free from the U.S. which maintains a 15% ad valorem duty on Canadian beans. The absence of any tariff protection forces prices in southwestern Ontario below Chicago price levels.

In Ontario, three soya bean processors purchase beans for use in a variety of food products and in prepared animal feeds. Two of the processors are controlled by feed companies with powerful bargaining positions in the soya bean market. They are exclusive buyers of Ontario soya beans with the exception of limited export sales of Ontario soya beans to the U.K. market. Since this export market will be reduced under recent G.A.T.T. agreements, the processors of soya beans will gain an even stronger bargaining position.

The Committee recommends that all soya beans be marketed under the Ontario Grains Marketing Board and that production be expanded. The Grains Marketing Board should provide growers with the best available information and advice on new varieties and production techniques and should initiate firm supply contracts with major users of soya beans and soya bean products.

This can only be accomplished after the G.F.O. with the assistance of the F.S.A. secures realistic trading policies in regard to soya beans and edible oils.

The Committee further recommends that the Ontario Grains Marketing Board examine the feasibility of creating storage facilities for soya beans to ensure effective bargaining with domestic processors. Forward sales contracts may be an effective method of ensuring that producers receive a reasonable price for their product, and for ensuring a stable supply of Ontario-produced beans. **The Committee recognizes that there is now adequate oilseed processing capacity in Ontario, but recommends that the Board take steps to ensure a reasonable level of competition in the industry.**

Dairying

About 52,000 farmers produce milk for sale in Ontario. For some producers, incomes are satisfactory because of efficient management, high production per cow and good fluid milk prices. For others, particularly those without fluid milk quotas, income is too low. This may be due to inefficient management, small herds, low production per cow or low industrial milk prices.

The Committee has concluded on the basis of its research that milk consumption will barely maintain present per capita levels. As population expands, total consumption may rise, but much of the potential increase could be offset by substitutes.

Because of the impending availability of substitutes, including the cheaper powder form of domestically produced milk, further price increases may seriously erode the demand for fluid milk.

The confused and extremely difficult milk marketing situation is a result of the past policies and programmes of governments as well as the actions and reactions of dairies and producers and their various marketing groups and organizations.

It illustrates a situation where the political role of the G.F.O. and the technical marketing role of a marketing board could be intertwined.

The findings and recommendations of the Ontario Milk Industry Inquiry Committee of 1965 and the proclamation of the Milk Act the same year, led to the establishment of the Ontario Milk Marketing Plan. This programme is moving forward in developing one overall milk marketing programme.

Our Committee feels that the O.M.M.B. should function as a marketing agency and that the G.F.O. should take over those functions which are properly their responsibility. Such a separation would allow the Ontario Milk Marketing Board to concentrate all its efforts on moving as rapidly as possible towards achieving the best prices for milk by pricing it to the buyers according to its use. At the same time, it could take the steps to improve the efficiency of collection, transportation, and assembly of the milk, and it could treat all producers of Grade 'A' milk

equitably by moving as rapidly as practical to taking all 'A' milk into one pool and paying all producers the same price for Grade 'A' milk.

This will help move towards the creation of the largest possible number of farms with adequate resource returns. If, by this pooling process, the efficient Grade 'A' shipper is not receiving a price which will give high enough resource returns, then the G.F.O. must take on the responsibility of persuading Government to pay subsidies or transfer payments to rectify the situation.

Our Committee feels that the programme of adjusting dairy farmers out of the industry should be pursued actively, using part of the Federal dairy subsidy so that the price levels for Grade 'A' milk, within the pool, need not fall below levels which would give adequate returns to resources to efficient producers.

The Committee has recognized the former inequities which existed when the individual fluid milk producer's return was based solely on the sale success of his particular dairy. The Group I pool introduced by the Ontario Milk Marketing Board has removed this inequity. At the same time, it has reduced the average price realized by some fluid milk producers, improving the returns of others. This result was unavoidable but completely necessary if producers were to receive equitable treatment.

The Committee recommends that, effective immediately, the Ontario Milk Marketing Board place an upper limit of 3,000 pounds on the quotas in the Group 1 Pool. For holders of quotas over 3,000 pounds, no further expansion should be permitted.

The Committee views with alarm the very marked appreciation which has taken place in the price of milk quotas. If this is allowed to continue, it will create an unnecessary production cost to the milk producer.

During the next three to five years, in line with its earlier commitment to producers, the O.M.M.B. should terminate all sales of quotas. By this time a system of quota allocation must be initiated by the Board and no further transfers by sale should be allowed. In the meantime, the Board should take action to contain quota prices.

The intention of the Board must be to bring all Grade 'A' milk into the pool since this is the only way in which all producers of Grade 'A' milk can be treated equitably. This was one of the prime objectives in creating the Ontario Milk Marketing Board.

Qualifying producers should be able to enter the Group I Pool at a rate that will allow the market, through expansion and growth, to maintain prices which will represent competitive returns to resources for reasonably efficient products.

The Committee recommends that the present graduated entry programme be continued while using the Federal dairy subsidy to help maintain the price level of the industrial and fluid producers and to help those producers who wish to adjust out of the industry, whether they are presently industrial or fluid producers.

Our Committee feels that the present level of federal subsidy payments must continue at least until 1980. The Canadian Dairy Commission must announce and project its support for industrial milk forward for at least the next five years. A further policy announcement should cover the following five years. For too long, the industry has suffered from the announcements of hand-to-mouth support on a yearly basis. The support has often come too late in the Spring for orderly production planning on a long term basis. The industry should be allowed to plan into the future for at least five years.

During the period of adjustment, which will likely extend to 1980, the Federal Government should guarantee at least the present levels of assistance to Ontario. These monies should be used as a means of producer adjustment out of the industry as well as income maintenance for producers within the industry.

It is recognized that for an indefinite period there will be more than enough milk producers in the Province.

The objectives of the milk marketing agency should be to have a maximum number of farms earning adequate returns to resources.

If the adjustment of producers out of the industry does not proceed rapidly enough, or if the marketing of milk cannot maintain an adequate price to give all reasonably efficient producers an adequate return to resources, it will be necessary for the G.F.O. to get subsidies or income transfers for their producers.

The Committee believes that the transition from single-product to multi-product milk plants should be accomplished as speedily and equitably as possible to ensure that all milk is put to its highest and most valuable use, and that producers can be adequately paid for their product.

The Committee commends the changes brought about in milk retailing and believes that changes such as the sale of jug milk should proceed as rapidly as possible.

The Committee found that milk pricing has been rigid and inequitable, and that pricing policies have encouraged undesirable production on uneconomic farms, undesirable shifts from cream to industrial milk production and undesirable milk-use practices at the processing level. At the same time, pricing policies have discouraged desirable adjustment in production and in overall marketing. In particular, the Committee found that milk pricing does not reflect the true value of the milk in use, nor its cost of production.

The Committee recommends that the price of milk to the producer should begin to reflect its true value in the market. This will require a more adequate method of milk grading, to take into consideration the quantity and value of milk constituents, quality, seasonality and location of production. The effective application of these criteria should lead to a higher average price for all producers.

The Committee concluded that a more adequate line of communication should be established between the Milk Marketing Board and its members, particularly Grade 'A' shippers to the industrial market.

Meat marketing

The marketing of meat in Ontario has changed very little in half a century. Particularly with beef, the product is purchased at the farm by private buyers, at local auction sales by packer buyers or at the Ontario Public Stockyards in Toronto. Despite market information concerning prices set by cattle sold on the public stockyards, producers are individually helpless to protect their interests in the market.

The Ontario Hog Producers' Marketing Board has effectively assembled the product for sale to the processor, but has not yet worked out a method of withholding the product from the market for any length of time, nor of improving the product to suit the changing demands of the consumer.

Present meat marketing organizations are incomplete, and operate in isolation from each other. No beef marketing organization exists. All the marketing organizations fail to reach their full potential because of lack of co-ordination and overlapping. A good many farmers produce more than one commodity and pay fees to several organizations. Stronger bargaining positions could be taken if a unified group could be formed.

The Committee recommends that an Ontario Meat Marketing Board be organized within the F.S.A. to include the marketing of all pork, beef, poultry, lamb and other meats in the province. If such a plan requires a lengthy period to develop, a co-ordinating agency should be set up to link the activities of existing meat marketing boards and producer associations related to the meat industry.

Hog marketing

About 42,000 farmers in Ontario produce hogs. The industry is changing rapidly and faces further and more dramatic changes in breeding, management and grading. These changes will have great impact on the organization of hog production. They could mean that the farmer will lose control of the industry through vertical integration by feed companies. The innovation which must come if Ontario hog farmers are to remain competitive, will affect the number of producers, the size of operation and the buying and selling practices required for the industry.

Centralized marketing by the Ontario Hog Producers' Marketing Board has reduced the cost of assembling and selling hogs. It has provided more competitive selling conditions and higher prices. However, the price of hogs continues to vary within a single day and may fluctuate severely from day to day.

The changes coming to the hog industry could have dramatic effects because many Ontario hogs are produced as a minor sideline on family farms. It is difficult to determine what the cost of production would be for such hogs, or to tell whether they are being produced with maximum efficiency. Therefore it is hard to discuss the rate of change from the present industry structure to any new structure based on more specialized, one or two-man hog farms, where from 50 to 100 sows will be kept or from 1,000 to 2,000 hogs finished. There is, however, a place for units of 25 to 50 sows and 500 hogs where this fits into the farming pattern.

Processing facilities for hogs are old, poorly located and small in scale. Some of the oldest plants have been phased out of production, but a number of new and more efficient plants are required at country locations if the cost of processing pork is to be kept to a minimum. At the same time, there is seasonal excess capacity and during the low part of the pork cycle, there is over-capacity in the pork-packing business.

Pork prices are kept low by the action of food chains. Their pressure on price is particularly noticeable with fresh cuts, where unpredictable supplies make it possible to force the market price downward and to hold it there. Most food chains have highly inefficient meat trimming and marketing operations. Pork cuts carry excessively wide margins in relation to the cost of retailing.

The Committee recommends that the O.H.P.M.B. set up a system for the orderly sale of weanling pigs in the province. This might be related to the development of a supply management programme for hogs, to ensure that the market receives the quantity and quality of hogs that can be marketed at reasonable prices.

To ensure more stable prices, the Committee recommends that a system of price pooling be considered. This could operate on the basis of a week's operation and could be broken down by region. We recognize that there are problems connected with such a programme.

Since a major programme of supply management will require the co-operation of producers in other provinces, and since this co-operation may require time, the O.H.P.M.B. might institute forward contracting for hogs as a technique for use at the provincial level, pending the development of more comprehensive national programmes of supply management.

The Committee recommends that the O.H.P.M.B. encourage the construction of new, well designed, efficient processing plants in locations removed from urban areas. Older plants are well depreciated and should be demolished as soon as possible.

The Committee believes that the only way a producer board can cope with the power of the chain stores is to co-operate with the packing companies to relieve downward pressure on price. This may mean that the Board will act as a broker for the packing company or that the Board will be forced to develop continuous forward contracts for pork products. If packers refuse to co-operate, the Board might negotiate forward contracts with the chain stores themselves.

Beef marketing

About 28,000 farmers have cattle on their farms for the production of beef in Ontario. In addition, the 52,000 farmers who produce milk provide nearly half of the total supply of cattle meat.

Beef cow numbers have increased steadily but Ontario cow-calf herds provide less than half of Ontario's feeder requirements.

Demand for beef is strong and growing rapidly. Since the potential output of beef is not increasing at the same rate, better prices can be expected for beef throughout the next decade.

With present beef prices, cow-calf operations must be based on a herd of over 150 cows, or be located on exceptionally cheap land to achieve an economic unit. Even at this scale, they must be organized with great efficiency to earn a reasonable return on resources.

Beef farmers in Ontario could become much more efficient in feed harvesting, storage and handling. Fast growing calves of better quality are needed. Animals should go to market in less than two years.

Beef producers in Ontario are not organized to market their product. Cattle are sold through direct sales to packer, through community auctions and through the Ontario Public Stock Yards. Direct sales to packers are increasing, especially among large feeders. Such direct sales allow top cattle to by-pass the open market and depresses the price for all cattle sold.

Most cattle are sold on a live-weight basis but larger operators have been moving to dressed-weight pricing. Where carcass-selling has been used, the lack of uniformity of packer grading has caused serious problems.

Producers have not instituted a single marketing plan for beef because of the diversity in size, type, efficiency and degree of specialization of beef operators. Beef, dairy, feeder and cow-calf operators are all in the beef industry but have different objectives in their marketing programmes.

The retail chains are important distributors of beef. Beef is very important as a vehicle for drawing customers into the store and therefore is often featured. Margins on beef are low, although retailing methods and procedures are inefficient. The retail chains exercise a strong bargaining position with the packers to force prices down as far as possible.

The Committee recommends that where land costs are low adjustment from the production of industrial milk into production of beef should be encouraged. This could mean the diversion of subsidy payments on industrial milk to a subsidy on beef calf production.

Land costs for profitable cow-calf operations could be reduced by expanding farm consolidation and community pasture programmes. A more dynamic programme should be provided by the Ontario Department of Agriculture and Food to encourage the development of better beef breeding stock and the improvement of feed harvesting, storage and feeding practices.

As a first step in the direction of a Meat Marketing Board within the F.S.A., the Committee recommends a vote on a beef marketing agency-type plan to market all cattle and calves for slaughter. The Board should promote a carcass grading system and a carcass-weight basis for sale of all animals going to slaughter.

All cattle and veal calves for slaughter should be sold by

public auction through the Ontario Public Stock Yards and a number of local auction barns. These could be designated as official Stock Yards for one or two days each week, and auctions of local cattle for shipment to slaughter could be held there. Sales could be on either a dressed or live basis, at the option of the farmer.

The Board should move to establish prices for each grade on a weekly basis by negotiation or at more frequent intervals by the use of teletype.

The Ontario Beef Marketing Board should ensure an orderly expansion of supply of well-finished, high-grade beef. The expansion could be regulated in the interests of both the producer and the consumer. Prices should move up in an orderly way, with no severe price increases to the consumer.

A system of forward contracts should be considered by the Meat Marketing Board as a means of stabilizing supply. The contracts could be written between the Meat Marketing Board and the retailer, and would guarantee the required volume of the cuts required, whether they were produced in Ontario or purchased elsewhere.

The Committee recommends that the Meat Marketing Board press for a reduction in beef retailing costs by working with packers to develop a system of centralized pre-packaging of beef for the wholesale trade.

Beef in northern Ontario

The cow-calf operator will find it extremely difficult under present prices to make an adequate return to resources. He must realize that his operation is entirely separate from the feeder operation in the south. He must be in a strong bargaining position to realize the best price for his product. There are certain things which can be done to help the situation:

1. Establish a northern Ontario feeder marketing plan under The Farm Products Marketing Act to ensure that all calves, or feeders, are sold by public auction.
2. Encourage producers to feed calves through to 700-800 lbs.
3. Use the best available bulls for producing uniform crossbreds.
4. Make arrangements to sell cattle in southern Ontario by auction in the main cattle feeding areas.
5. Encourage producers to move to economic units.
6. Extension methods in the North should be much more closely adapted to local needs. Research and extension work should emphasize better forage handling and storage techniques.

It is not reasonable to expect that these actions will achieve adequate resource returns for cow-calf operators in northern Ontario in the near future. It will therefore be necessary for the government to make one of two choices.

We would suggest that the alternatives are as follows:

1. To increase public inputs into the agricultural industry, on the assumption that the level of efficiency can be improved substantially and that long run prices will improve.

In northern Ontario, agricultural efficiency might be improved by aggressive farm consolidation, more intensive and detailed extension advice related to production management, improved farm engineering services related to feed storage and handling and by improved assembly and marketing of the beef calves produced.

Public inputs could include a subsidy on each beef calf produced during the transition period, to assure that every farmer who makes the effort to achieve viability is rewarded immediately for his effort. Our research indicates that a per-calf subsidy of $50 would be required in northern Ontario to pay adequate returns to resources to even the best operators. Where such a payment is to be made it should be on the advice of the credit counsellor and should be paid only to those producers who are using available programmes to improve their management and efficiency.

However, such a policy is dangerous in the sense that it may tend to trap operators in an industry which will never be able to pay reasonable returns to resources even for large, well organized units. We do not have evidence to suggest that prices will rise sufficiently in the next decade to justify production of calves in northern Ontario. No amount of research can establish with certainty the extent and nature of productive improvements in the beef industry in more favoured parts of the continent.

2. To increase public inputs into northern Ontario with a view to the fullest use of capital, land and labour available.

This policy would require a substantial increase in programmes related to labour mobility, retraining and job creation. It would require that farmers now producing beef would have other alternatives in the North which could provide a better standard of living. For some, retraining through A.R.D.A., together with the purchase of their assets by A.R.D.A. or F.R.E.D. (Fund for Rural Economic Development), would allow them to move immediately into well-paid employment in forestry, mining or related occupations.

For others, direct payments from the treasury are required, for they are too old, or for other reasons, untrainable. Income maintenance or other direct payments will be needed to provide a reasonable standard of living.

This could mean that northern agriculture would be largely closed down except in the case of production of certain commodities for local markets, where local producers have a significant transportation or market advantage as with fluid milk and vegetables or the development of confined rearing of sheep.

The Committee recommends that the Government of Ontario give serious consideration to the problems of farmers in northern Ontario. Research has not indicated that viable beef, cow-calf or industrial milk units can be created at the present time. There is no certainty that they can be created in the future. At the same time, the farmers of the North were encouraged to move into the North, in many cases, by public policy. They now face high levels of underemployment as a result of rapid changes in the agricultural industry. They are unable to deal with the situation without significant assistance from the public sector.

It must be absolutely clear that trapping people into an industry, which cannot make adequate returns, is no longer acceptable. They must be informed of the choices open and the probable results in each choice. If the decision is to move out of production, they must be assured that the adjustment will not be unreasonably costly to them.

Sheep

There is a strong demand for lamb of high quality in the Canadian market. Traditionally, Canadian producers have not attempted to supply a large part of the market but supplies have come from such parts of the world as New Zealand.

Research currently underway at the New Liskeard College of Agricultural Technology and at the Ontario Agricultural College of the University of Guelph, indicates that intensive rearing and fattening of sheep and lambs may be a profitable alternative is some parts of the province.

The Committee recommends that the research continue and that information be made available to producers at the earliest possible date. If prospects are encouraging, drylot sheep and lamb operations may provide a profitable option for some industrial milk and beef operators.

It may also solve the problem of predators which have prejudiced the industry in the past.

Poultry marketing

About 800 farmers produce chickens for the Ontario broiler market. The industry has been reorganized since the early 1950's and is now concentrated in relatively large units. Reasonable price and supply stability has been achieved, although an imperfect quota system has been used. Use of the quota system to achieve high and inflexible prices has resulted in temporary losses of part of the Ontario market to imports. To recapture the market, it has been necessary to reduce prices below an appropriate level for lengthy periods, thus reducing producer income.

Although the size of a broiler unit has increased, the quota transfer policy followed by the board has failed to encourage adjustment to viable units which can earn adequate returns to resources. Quotas have been tied to building capacity and have not been available in small units.

About 700 farmers produce turkeys and turkey broilers in Ontario. Producers are not well organized. Turkey broiler production has expanded rapidly under the direction of feed companies. The feed companies' powerful position in the market as suppliers of costly inputs to the producer and as processors of the product has left turkey producers in a very weak bargaining position.

Processing is concentrated in few hands, and excessive bargaining power has allowed processors to continue to operate at a profit despite excess capacity and outmoded facilities and equipment. Processors have not made sufficient efforts to introduce further processing and pre-packaging to the turkey industry. Because of inefficient processing, the industry falls far short of meeting U.S. competition. The result is that turkey imports are a serious threat to the present turkey industry in Ontario.

Poultry processors as a whole face great pressure from the retail chains in respect to price. Retail chains feature broilers (both turkey and chicken) at or below cost. At the same time, retailers charge wide margins during normal periods. This marketing technique has kept processing margins narrow and may account in part for the slowness of the processors to rebuild and improve their plants.

The Committee recommends that a single Poultry Marketing Board be organized for all producers of poultry meat products to begin the process of merging poultry producers into the F.S.A. Such a Board could resolve numerous conflicts among poultry producers and could ensure that the demands of the market are met through streamlined production, processing and marketing arrangements. The Poultry Marketing Board may find it advantageous to join the beef and hog marketing boards in a Meat Marketing Board, because of potential efficiencies in bargaining jointly with the same supply, processing and distributing companies. Efficiencies could also be gained in common data collection systems and research.

Ontario poultry meat producers must recognize that they could very quickly lose their advantage in the Ontario consumer market if they fail to maintain a constant supply of high quality poultry meat at competitive prices.

The interests of hatcheries and processors should be taken into account in determining the extent, frequency and timing of changes in supply and price.

Quotas should be made available to producers capable and willing to expand to fully viable operations. Upper limits should be established on size to prevent uneconomic concentration of production capacity and to prevent the development of serious pollution problems.

The Committee further recommends that all quotas should be allocated by the Board and that sales of quota rights should be terminated within two years.

Turkey producers should take the necessary steps to be included in the Ontario Poultry Marketing Board.

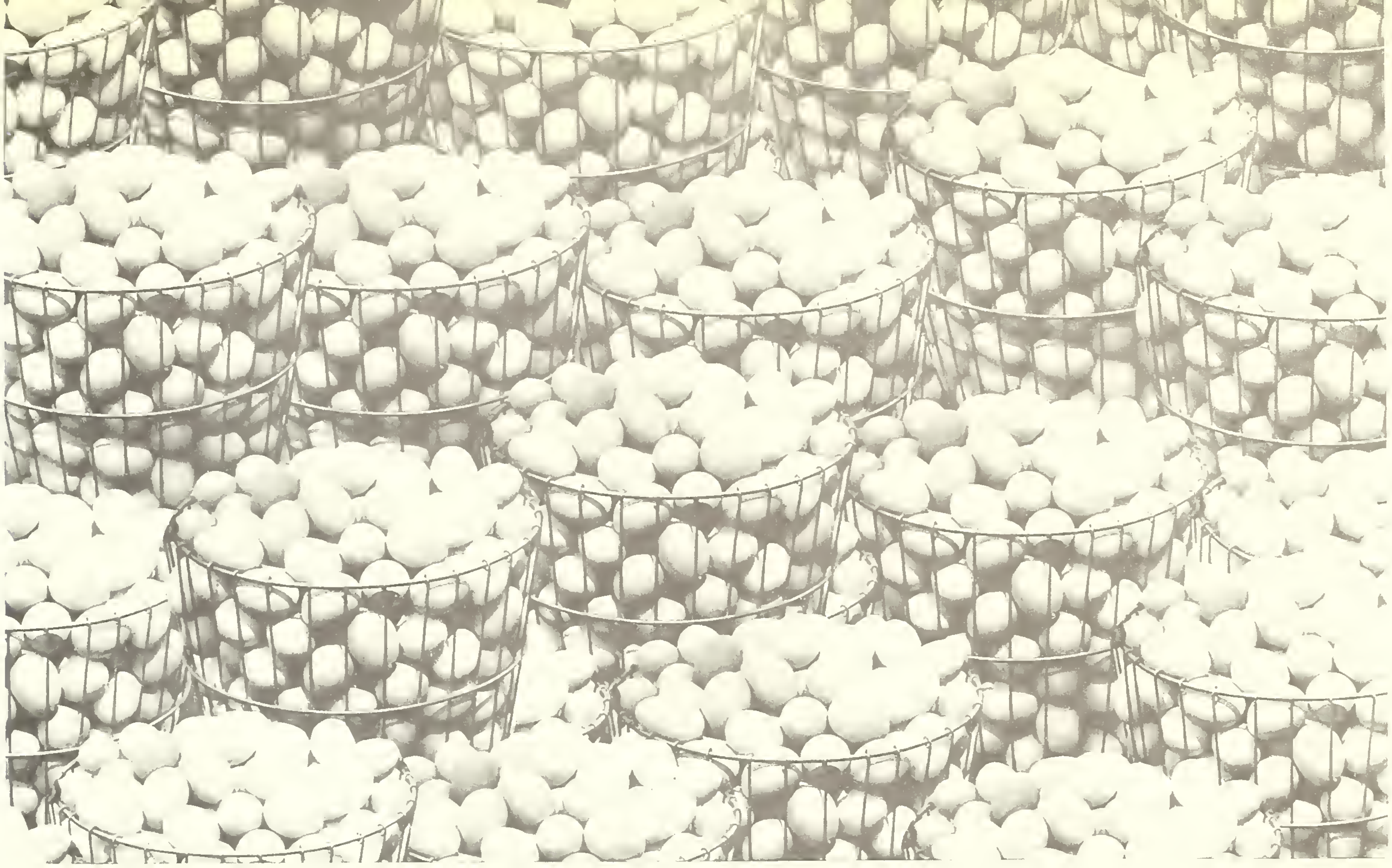
The Poultry Marketing Board should continuously evaluate the adequacy of processing and marketing facilities and press for changes where necessary. It should also review the rate of adaptation of poultry retailing techniques and press for early improvements.

The Committee recommends that the Ontario Poultry Marketing Board begin a co-operative programme with processors to develop realistic terms of sale for all poultry products moving through the retail food chains. The Board may find it necessary to act as broker for the processors to ensure that realistic prices and margins are charged for poultry meats.

Egg marketing

About 32,000 Ontario farmers produce eggs with the bulk of production concentrated in fewer than 1,000 large flocks. Small flocks are still evident, despite very strong pressure toward large, specialized operations. The Committee has determined that a minimum of 5,000 birds is required for reasonably efficient marketing. It is evident that only a few thousand producers can meet this minimum level of output, in the long run. Other operators should be restricted to direct sales, should consider another aspect of agriculture or another occupation.

Both supply and price have fluctuated widely from year to year and within a single year. The egg business has been risky and for long periods unprofitable for even the most efficient



operators. The unstable supplies and prices have led to serious inefficiencies in the production, marketing and packaging of eggs. Transportation of eggs is inefficient, with duplication of facilities and unnecessary cross-hauling of the product. Large retailers of eggs have gradually introduced efficiencies through arrangements with large producers and with grader-packers. In some cases, the retail chains have established their own assembly and grading systems.

Many of the 236 grading stations in Ontario are of inadequate size, have poor egg supply arrangements and poor markets. A few, large operations account for a high proportion of the total carton egg trade. Their share will continue to increase. Many producer graders sell direct to hotels, restaurants and private homes. This trade must be allowed to continue.

The Committee recommends that producers seek agency powers for the Ontario Egg Marketing Board as soon as possible. It would function as a provincial arm of a National Egg Marketing Commission. Even with this Commission, the Ontario Egg Marketing Board should operate within the F.S.A.

Attention should be focussed on producers supplying commercial outlets. Smaller producers who provide a very small share of the total eggs required by the market might be excluded from the plan if desirable.

The industry should move as rapidly as possible to viable units of from 5,000 to 15,000 birds. In view of the substantial adjustments necessary in the industry and of the major pollution problems which can be created by very large, specialized poultry units, excessively large units should be discouraged. The Committee feels that egg production units do not have to be excessively large in order to earn a reasonable rate of return on resources.

The Ontario Egg Marketing Board should begin as soon as possible to manage supplies of eggs in co-operation with licensed grader-packers. This would provide more stable supplies and would allow for the negotiation of stable prices at reasonable levels.

The Committee recommends that the Board undertake to encourage adjustments in the marketing system to fewer, larger and more efficient grader-packing stations in desirable locations throughout the province.

The Committee also recommends that the Board undertake studies to analyze the bargaining position and buying practices of retail food chains in order to take a stronger role in egg pricing and distribution in the province. The Egg Marketing Board may have to study the necessity for controlling grading-packing operations so that egg processing can be undertaken to stabilize supplies of fresh eggs reaching the market.

Fruits and vegetables

About 10,000 farmers are significant producers of fruits and/or vegetables in Ontario. They are concentrated in several specialized areas of the province.

Marketing is poorly organized on a provincial basis, despite the existence of no less than eight boards and numerous associations. There is poor co-ordination among products, among regions of supply, among fresh and processed supplies and among sellers and buyers.

The fresh fruit and vegetable market is chaotic, with needless price fluctuations and ineffective distribution techniques. Product quality is unnecessarily variable and buyers cannot be sure that the volume and quality they require will be available from Ontario producers. Consequently, they frequently depend on imported produce, only using Ontario produce when it is significantly lower in price.

Undesirable buying practices have been indicated by recent investigations under the auspices of the Ontario Food Council.

Methods of assembling, handling, transporting, storing and displaying fresh fruits are often unsuitable and result in deterioration of the product. Producers may have to improve quality by insisting on more careful handling of their product, or by taking control of the product themselves.

New and expanding markets for fresh fruits and vegetables have been developed by small fruit markets and gourmet stores, but the present quality of Ontario product has not won it a large share of this market. Frequently, imported commodities arrive after lengthy transportation in better condition than locally-grown produce.

Fruit and vegetable processing is dominated by a few very large, international firms with sources of supply in a number of countries. This reduces the dependence of these firms on Ontario supplies. Decisions made by the firm may reflect the best interests of the international corporation but will not necessarily benefit Ontario producers. These decisions may not reflect relative levels of efficiency in the various producing countries, but may maximize the profits of the corporation.

In many countries, development funds are being used to promote the growth of the fruit and vegetable industry. This means that commodities can enter the international market at price levels which do not reflect true costs of production. Corporations which enjoy such production advantages can cease processing in Ontario but can retain their share of the Ontario consumer market by importing product from the country where subsidies are largest.

The F.S.A. must begin to counteract the power of international firms by using whatever techniques may be required. Regional or single product marketing agencies are helpless to bargain effectively for the producer in this international market.

Processed fruits and vegetables are frequently retailed under national brand labels which may be costly to the consumer.

There is not sufficient communication between producers and their market. Producers work in a vacuum so far as accurate information about consumer preferences or about the demands of the retail market are concerned.

Vast quantities of fruits and vegetables are imported throughout the year into Ontario. Only briefly in the year do Ontario products take a substantial share of the market for each commodity. This leads to a situation where Ontario products may sell at a substantial discount below imported goods, despite the existence of a substantial volume of high-quality product from Ontario producers. At other times, fruits and vegetables which are in surplus supply in the eastern U.S. market are dumped into Ontario to protect U.S. retail prices, thus depressing the price of

Ontario grown commodities.

The Committee recommends that the eight fruit and vegetable marketing agencies be merged into a single agency type Fruit and Vegetable Marketing Board to co-ordinate the activities of all the present agencies. This process may take two steps: the creation of a fresh board and a processed product board, for a transitional period, with final merger taking place as soon as possible.

The Committee recommends that the supply of all fruits and vegetables in Ontario be managed by the marketing board. This will mean domestically produced commodities will move through the marketing board and information will be gathered on imports. It may be necessary for the agency to become a buyer of imported products. Close control of quantity and quality can be achieved and the best interests of both consumer and producer can be met.

The Fruit and Vegetable Marketing Board should negotiate supply contracts with large buyers at realistic prices. Buyers should be guaranteed continuity of supply and stable prices.

The Committee has observed that an inadequate relationship exists between grades of raw product and grades of processed final product.

All inspection services are now split between the Federal and Provincial governments. They should be integrated under provincial administration with the necessary delegation of federal authority to provincial inspectors. The federal government, through a grant system, should bear its share of the cost of this service.

The Farm Products Inspection Branch of the Department of Agriculture and Food lacks real liaison with the needs of the consumer. **The Committee recommends that this Branch be placed under the administration of the Ontario Food Council.** The Food Council membership of producers, processors, retailers and consumers should ensure that at all times, producer grades accurately reflect the needs of the market.

The Committee recommends that the Board take steps to halt the trend to vertical integration into production by food processors. Since this trend has been caused by the inability of producers to organize themselves to guarantee volume and quality to processors, the agency will have to make such guarantees as part of its negotiation.

The Committee recommends that the Fruit and Vegetable Marketing Board organize a research and information programme to provide producers, processors and consumers with more adequate information about the activities of the industry. This will assist them to recognize the need for desirable adjustments in time to make them profitable.

The Committee suggests that the over-riding function of the Fruit and Vegetable Marketing Board will be to meet the requirements of the food chains for a continuous supply of uniform, high quality fruits and vegetables. This is a requirement which cannot be met by regional or specialized boards.

Tobacco marketing

About 4,000 farmers produce flue-cured tobacco in Ontario. Acreage rights are allotted to producers and are transferable only with the sale of the land. Benefits from the programme are capitalized into land values when a transaction takes place, thus driving land (with rights) prices far above the price of land of equal quality but lacking rights.

The demand for tobacco is uncertain. There is a strong and stable domestic demand and significant export sales. Total sales have approximated 200 million pounds per year. Ontario producers have been able to obtain very good prices by practising strict supply management.

A demand for Ontario tobacco, which is considered temporary by tobacco producers, has grown out of the Rhodesian-British situation. Ontario has not moved to fill the vacuum in the British market on the ground that this is a temporary situation which does not justify expansion of Ontario production capacity.

The effects of the product on health, the implications of the Rhodesian supply and the U.S. policy of price support for tobacco, could have unpredictable effects on demand and price for Ontario tobacco.

The Committee has observed that tobacco farmers as a group enjoy the highest incomes in rural Ontario, provided that land and rights were obtained early in the programme. Any income problems faced by tobacco farmers are the result of paying high prices for the right to grow the product. If faced with lower demand or prices for tobacco, these producers could face very severe income difficulties in discharging their obligations to the prior owners of the property.

The Committee feels in general that the Board's rights-transfer policy has benefitted existing tobacco farmers at the expense of newcomers, including the heirs of present operators, by forcing land costs excessively high. **The Committee therefore recommends to the Ontario Tobacco Growers' Marketing Board that it study very carefully the effect of revising present rights-transfer policy to reduce the cost of entry to newcomers in the interest of the long term stability of the industry.**

PART IV: ADJUSTMENT TO CHANGE

Chapter 12: The price of progress

The recommendations of the previous sections have dealt primarily with issues with which farmers are familiar. We have discussed farm management training and farm service programmes, income tax, property tax, farm credit, farm input costs, land use regulation, marketing and supply management. They are matters which farmers hope to influence either individually or through intelligent group action. We have proposed that the much discussed General Farm Organization be the vehicle through which farmers express their common objectives.

At the same time it has become apparent to the Committee that many of the problems which farmers and rural people face are beyond their control individually or collectively. Yet if these larger problems are not recognized and if action to resolve them is not initiated, our recommendations concerning the agricultural industry will not be effective.

Who pays for progress?

There has been a tendency, especially since the Second World War, to measure the achievements of society in terms of economic performance. The relevant economic indicators have been Gross National Product, employment, price stability and balance of payments. There has been at the same time a certain concern for the distribution of income among individuals, and a growing awareness of regional economic disparities within the country. These latter considerations seem to be of secondary importance in the list of political priorities. The Committee feels that a review of priorities is very much in order.

The impact of structural change

The structural changes in the economy which have accompanied economic growth are recognized, but seem to be accepted as the inevitable cost of progress. For example, the rapid change in the occupational composition of the labour force and the shift of the population toward urban centres are linked with growth in national output. It is assumed that the net result of these changes in terms of human welfare is favourable, when in fact this conclusion is debatable.

Consider the structural changes in the economy which are expressed in the changing contribution of different industries to national output and in the changing occupational composition of the labour force. One of the driving forces behind these changes is the discovery and application of new technology in production, a process which occurs at different rates in different industries, and which in addition has radically different implications for the manpower employed in these industries depending on the rate of growth in demand for their products.

The adjustment required on the part of individual human beings can vary greatly from one occupation to another. Changes in production technology and product demand can render a whole industry or particular occupational skills redundant. Society is supposed to benefit as a result of such changes, but the benefit to the individuals directly involved is not apparent. If in fact they suffer as a result of the change, it becomes much more difficult to claim that the change is really beneficial.

The Ontario situation

What does structural economic change mean to farmers? For Ontario farmers it means that the population on farms has decreased from 800,000 to 500,000 during the past 35 years. The current rate of decline is about 1% annually, compared to a high of 3% during the 1950's. The proportion of the Ontario population living on farms has declined in the same period from 25% to 7%. The number of farms has fallen from 190,000 to 110,000, the rate of decrease being about 2% per year.

There will be large numbers of low income farms in Ontario for years to come. Not all the families on these farms will have low incomes, since many families on farms are not primarily dependent on agriculture for their income. We have estimated, however, that in 1966 there were 40,000 farm operators principally dependent on the farm with net incomes of less than $3,000 and 30,000 of them with no off-farm work. Seven thousand of these farm operators were over 65 years of age, and 3,000 owned farm assets worth $50,000 or more. Thus the upper limit on the number of farm families with severe income problems is 30,000. It cannot be assumed that all of these are living in poverty, since in some cases the family income is bolstered by the off-farm work of the wife and children. Probably 20,000 families are enduring serious poverty. In many cases, there is strong pressure to remove children from school so they can contribute to the support of the family. The self-reinforcing cycle of poverty is built upon pressures of this kind which are traditionally powerful in the agricultural community.

The fact that this massive adjustment of the farm labour force has occurred could be interpreted to mean that there really is no problem; the necessary "reallocation of manpower" is being achieved through the normal operation of the labour market.

Our interpretation is rather different. First, the prevalence of low incomes and low returns to resources in agriculture indicates that the adjustment mechanism is overloaded and that the huge adjustment that has been made is still not enough. Second, the adjustment of the farm labour force is being achieved by squeezing people out of agriculture. Farmers have been subject to liberal use of the stick without much taste of the carrot in their adjustment out of agriculture. Thirdly, although the population on farms has declined, it is plain that many people have not made a successful adjustment out of agriculture, but have exchanged their farm poverty for rural or urban poverty. The adjustment of statistical categories disguises a serious social problem – that of uprooted farm families unable to cope with the changes forced upon them by the structural changes in our economic system.

In the language of economists, the difficulties experienced by farmers and rural people in adjusting to an urban environment are called barriers to mobility.

Labour mobility has several dimensions: mobility between jobs, mobility between places, and mobility between occupations. Some types of adjustment are easier than others, and the type of adjustment demanded of the farmers is very difficult. The barriers to mobility are also greater for farmers than for other elements of the population.

The economic pressures operating on the agricultural industry produce low returns to resources and low incomes. The economic signal to change jobs is clear, yet many farmers do not respond to it. Sometimes this failure to respond to economic pressure is attributed to farmers' emotional attachment to their way of life, but this is far too simple an explanation. A farmer's decision to remain on a low income farm is frequently rational. It is the best option available to him.

If this seems strange in our prosperous economy, it must be pointed out that for many farmers adjustment out of agriculture means a simultaneous change of occupation and location, which is an upsetting experience at best. The question of a farmer's mobility as a worker cannot be divorced from the nature of family relations, community relations, and the values of rural people.

Certain economic costs are involved in a change of location from farm to urban centre. Moving costs may be large, but the main consideration is the salvage value of the farm land, equipment and house in comparison to the cost of urban living. In many cases the farm salvage values are low, while the cost of urban housing is high, making a move to the city very expensive. Cheaper housing in urban centres and the use of movable housing in smaller towns are necessary if this barrier to the mobility of farmers is to be lowered. These measures would raise the standard of living of farmers who are willing to move to another job, and also of those who wish to retire.

There are non-economic costs attached to changing location. Farmers may be reluctant to leave the communities in which they have friends, acquaintances, and an established social position to enter a strange environment where they know neither the people nor the rules of the game. These disadvantages of moving from a rural to an urban community present a significant barrier to mobility.

There are also powerful barriers related to the necessary change of occupation. An established farmer can seldom earn wages comparable to those of men his age and ability if he leaves the farm. The skills he learns in farming are not highly valued in other sectors of the economy, so that the wage incentive to leave farming is weak. Furthermore the organization of work is very different outside agriculture. It is easy to understand why farmers resist going from a situation of relative independence to employment where work is highly regimented and supervised, and completely separated from family life. High regular wages might compensate for this change, but the low wages and unreliable nature of employment available to farmers cannot.

When all these factors are combined with a general suspicion and fear of urban attitudes and social habits, many farmers cannot regard leaving the farm as a realistic choice. It requires changes in too many aspects of their lives all at the same time to be bearable. In effect then, many farmers are caught in a dilemma. The farm cannot provide a living, and the city cannot provide one either. The individual farmer is trapped and squeezed between forces he cannot understand or control.

These factors which trap farmers on low income farms must be overcome, not only to improve the situation of the farmer and to provide the farmer with access to the equality of opportunity which is his right, but also to ensure that the children of these farmers do not suffer the same fate.

Part-time farming

Not all farmers are faced with the extreme choice between farm and urban living and this is the key to the resolution of agricultural adjustment problems. The bridge between farming and non-farm employment is part-time work off the farm. Such work serves two purposes: it supplements the income of farm families, and it provides some of them with the essential first step toward full-time non-farm employment. This move is difficult to make in one jump, but it can be approached in stages.

Part-time, off-farm work of some kind was reported by 40% of Ontario farmers in 1966. (See Figure 22.) Some 24,500 or 22% worked off the farm more than half the year. This type of activity is more common among younger farmers and among those on small farms. This is clearly the form of adjustment that farmers have found most suited to their needs and skills. However, it is dependent on the existence of off-farm employment in the region of the farm, and thus is not an available alternative in many areas with serious adjustment requirements.

Our research indicates that higher proportions of farmers in northern and eastern Ontario than in southern Ontario have serious income problems. This is caused by a combination of low gross sales of farm products and little off-farm work. In southwestern Ontario, low income farmers are a smaller proportion of all farmers in the region, but since 65% of all Ontario farmers are located in the southwest, the number with serious income problems is still considerable.

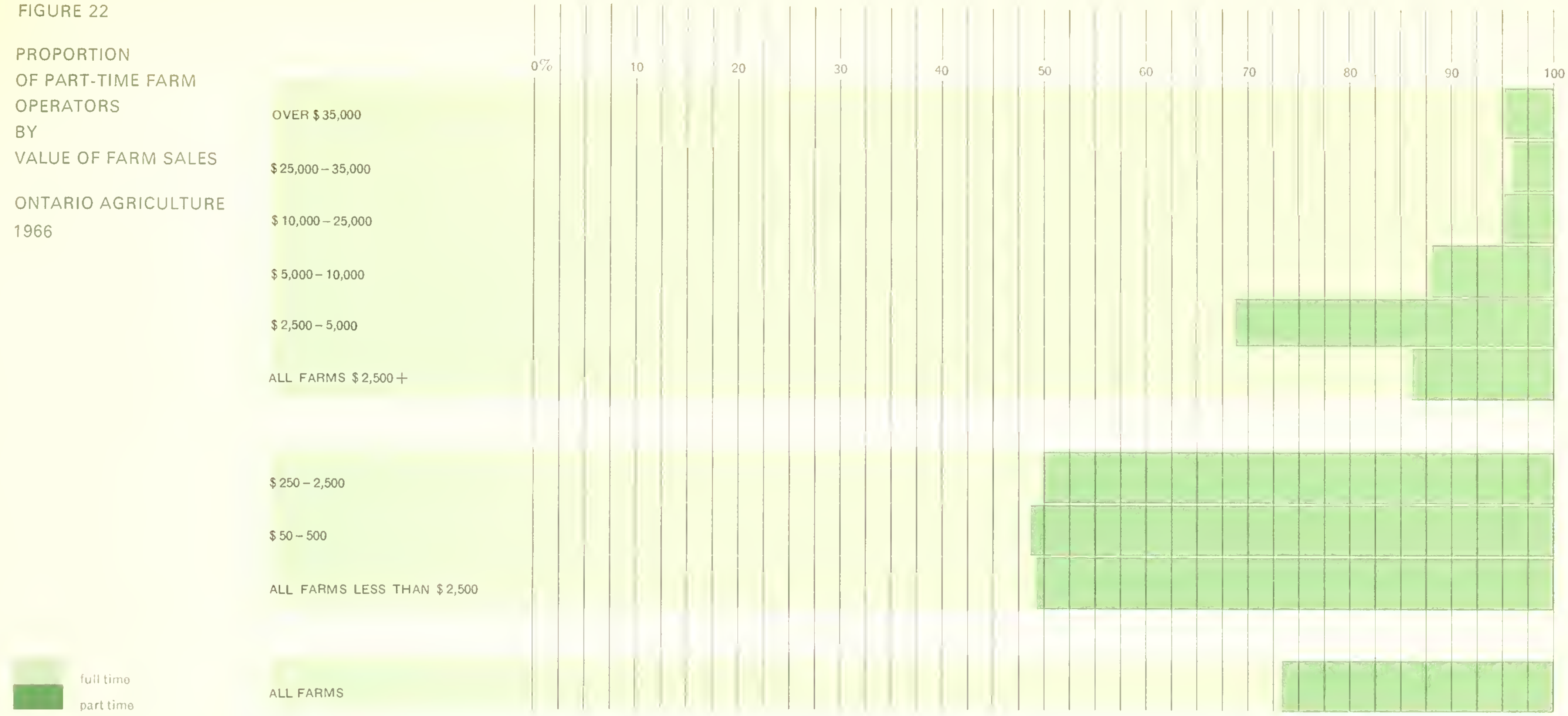
Adaptation to change

Our economic and political system places the primary responsibility for adaptation to structural change on the shoulders of the individual. The absence of a social policy to equalize the

FIGURE 22

PROPORTION
OF PART-TIME FARM
OPERATORS
BY
VALUE OF FARM SALES

ONTARIO AGRICULTURE
1966



distribution of the costs and benefits of economic progress has encouraged private groups to fill the vacuum by protecting the interest of their own members.

Unions of the blue collar type (Canadian Brotherhood of Railway, Transport & General Workers) and the white collar type (Royal College of Dental Surgeons, Canadian Medical Association) have had some success in limiting the number of people in their occupations and in defining jobs in such a way that the effect of new technology on employment and income is controlled. In the case of the railway firemen, where the demand for their labour services evaporated rapidly, the union forced on the railroads a programme of phase-out through normal retirement. Dentists and doctors, on the other hand, face an expanding market for their services which makes it relatively easy for them to raise their incomes, both by limiting entry to the professions and by retaining tasks which might be performed by less highly skilled personnel. For example, in Canada, only doctors may administer anaesthetics, whereas in the U.S. nurses are trained for this job.

It is understandable that private organizations pursue restrictive practices as a buffer against the forces of change. They can hardly be condemned for attaining for their members a security that everyone desires. Nonetheless, large numbers of people, including farmers, do not presently occupy strategic positions in the economic system and cannot protect themselves in similar fashion.

Government programmes

Governments have to some extent recognized the problems we are describing, and have taken certain measures to correct them. The main effort has been focussed on smoothing out the market adjustment process by increasing labour mobility. This is the main purpose of manpower retraining programmes, adult education, moving allowances, and other devices designed to reduce the cost to the individual worker of a change in occupation or location. These programmes may be of merit for workers already accustomed to an urban environment, but they are not sufficient to meet the needs of much of the rural population.

Although manpower mobility programmes cannot effectively reach large portions of the rural population, they have an even more serious shortcoming. They are based on the assumption that the present geographic development pattern is the correct one and should be encouraged by moving people into existing areas of intense economic activity and existing concentrations of population. In other words, they represent a surrender to the present unplanned growth of metropolitan areas. It is rather shortsighted and foolish to devote great energy to promoting manpower mobility and none to planning an attractive physical environment in which people can work and live happily.

Positive social control of change

Our discussion of technological and structural change in the economic system is presented to establish two essential points as a background for policy recommendations. The first is that the burden of change is frequently borne by groups of people who do not reap compensating benefits from the process. In general, farmers have been and are such a group. The second is that the process of technological change and structural economic change taking place in Ontario is not necessarily desirable. The pattern of urban growth being thrust upon us by unco-ordinated economic decisions is a matter for grave concern. The Committee is of the opinion that the problems of unplanned urban development can be attacked through programmes which will benefit both rural and urban Ontario.

Farm people and the rest of rural society have made major adjustments in the past. They must be made aware that more are needed. The Committee feels it is time for urban-industrial society to shoulder its responsibility to the rural community by providing assistance in this painful process. This is possible if urban society, in the search for solutions to its own problems, selects the programme which we outline below.

Adjustment by rural people

Although a large adjustment in the farm labour force is necessary, not all portions of the farm population can adapt with equal ease. We have suggested that the capacity of farmers to adjust is related to their educational and occupational skills and to the local availability of off-farm employment opportunities. However, the major source of change in the farm labour force is not achieved through the mobility of established farmers, but by the excess of retirements over new entries into farming. During the decade 1951-61 persons under the age of 45 in 1961 accounted for a net entry into farming of 20,000 operators. At the same time there was a net withdrawal of 48,000 operators over the age of 45. This resulted in an overall decrease of 28,000 in the number of farm operators. If we temporarily ignore the implications for the structure of rural communities, it is clear that an effective attack on farm income problems should concentrate on steering rural youth not needed in farming to another career. This will allow the natural process of retirement to reduce the number of farmers attempting to earn a living from the industry.

Programmes for rural youth

The formal education system cannot by itself encourage all but a very small proportion of rural youth to choose an occupation other than farming. Programmes which are designed to encourage young men and women to leave the land fly in the face of the whole traditional value system of farm families. The ideas of farming as a good way of life and the continuation of the small family farm are very powerful. Consequently, a realistic appraisal of the economic future of farming must be communicated not only through the schools, but directly to parents and through various community programmes like 4-H. Above all, it is important that programmes provide accurate information about farming and accurate information about the alternatives.

Elementary and secondary education

One of the principal hindrances to the mobility of farmers and rural labourers has been a lack of the broad education and skills which would allow them to shift easily into other occupations. The provision of sound basic education is therefore of great importance. The centralization of school districts into county units had been a move in this direction.

Unfortunately there remain serious gaps in both the quantity and quality of rural as compared to urban education. Although the number of years of schooling has risen considerably for both rural and urban young people, there is still a wide gap between them. For example, 70% of the rural farm population aged 45-64 has only an elementary school education whereas in the 15-19 age group, 43% have not gone farther in formal schooling. The equivalent figures for the urban population are 48% for the older group and 27% for the 15-19 group. The urban-rural gap is 22% for the older group and 17% for the young. Since the gap in the older age bracket is more likely to include some migration of the educated rural population to urban areas, the gulf between rural and urban school attendance is apparently not narrowing very much.

Quality of education is much more difficult to assess. To the extent that it is reflected in the qualifications and salaries of teachers, rural children are at a distinct disadvantage. The proportion of rural teachers with Class 3 certificates and the average salaries of rural teachers are well below the corresponding figures for their urban counterparts. Once again, this gap has been narrowed but it is still unacceptably wide. Rural children are expected to compete in the same economy, and most of them must make the adjustment from rural to urban ways of living. For them to have equality of opportunity under these circumstances, they require superior, not inferior, education.

To increase the opportunities of rural children, they must be kept in school longer. This will be possible only if there is a general feeling on the part of students and parents that the education being provided is relevant to their needs. To facilitate the involvement of students in the educational programme, the student must be able to identify his aims and interests with those of the system. The whole programme must be sensitive to the student's immediate environment, and its goals must bear some relationship to those of the student, the family, and the community at the same time as it seeks to alter these goals.

The educational system is not succeeding in this difficult task. It tends to be urban-oriented from the beginning. The textbooks are urban-biassed. There is slight consideration of the agriculture industry or of the rural community in the planning, values and curriculum structure of the Department of Education. The personnel of the Educational Planning Division of the Ontario Institute for Studies in Education do not feel that rural education is very important, since they reason that most rural children will eventually move to cities anyway. This sort of bureaucratic insensitivity is a critical barrier to the adjustment of the rural population. The system is failing to provide an increased understanding and awareness of the total social environment, and of the relationships between rural and urban environments. These are needed to guide the career decisions of rural youth.

In addition to a re-orientation of the approach to rural elementary and secondary education, the Committee recommends that special priorities be assigned to vocational guidance and expanded trades and technical training in rural secondary schools. In practice this will require the Department of Education to create special incentives to bring highly qualified teachers to rural areas. It is also apparent that educational planning must be integrated with overall regional development planning, since planning based on present population trends reinforces the decline of rural areas both socially and economically.

Post-secondary education

For those rural students who complete a secondary education, there are three avenues of continuing formal education: the Universities, the Colleges of Applied Arts and Technology (C.A.A.T.) and the Colleges of Agricultural Technology (C.A.T.)

The barriers to rural youth, especially farm youth, attending university are similar to those affecting other low income groups. The combination of social attitudes and the financial cost of living away from home to attend university bar all but a small minority from this education path.

The C.A.A.T.'s which are now being established are of great relevance to the adjustment problems of rural Ontario. Their three-fold objective is to provide a post-secondary alternative to university emphasizing technology and trade skills, to provide suitable educational up-grading and retraining courses for anyone over 19 years of age, and to provide a centre for recreation and continuing education to the communities around them.

These colleges are particularly important in that they offer training which is essential for job mobility between agriculture and industry. The training is offered on a regional basis, bringing it within commuting distance of a great many farms. This has been an imaginative step which the Committee strongly approves.

Two points must be made. The first is that the C.A.A.T.'s as yet have no specified programmes or policy orientation toward the question of labour adjustment out of agriculture. This deficiency should be remedied quickly. The second is that the principles which determine the location of C.A.A.T.'s are not clear. Criteria for choosing locations should be developed within the framework of population surveys and a comprehensive regional development plan.

In addition to universities and C.A.A.T.'s, the province of Ontario operates four Colleges of Agricultural Technology through the Department of Agriculture and Food. These four colleges and the Ontario Agricultural College (University of Guelph) provide two-year diploma courses in agricultural technology. While the original purpose of these courses was to train future farmers, many of the graduates have found employment with agri-business companies. This has been a very positive form of adjustment out of farming for the students involved.

Informal education

There are a number of government-sponsored activities for farm youth, including the Junior Farmer programme, the Junior Institute, and the 4H programme. In the past three programmes have had a rather narrow agricultural orientation. To meet the urgent adjustment needs of the farming population, all such programmes must be drastically revised. The economic realities and prospects of Ontario agriculture must be indicated to the young people. The programmes must offer them a better understanding of various career opportunities, rather than emphasizing farming and the rural way of life to the exclusion of other possibilities.

At both the local and provincial levels, cohesive action by all organizations and individuals concerned with rural youth is required. The Committee feels that Rural Youth Councils discussed earlier can fulfill this need. They should have a natural link with the Rural Human Resources Council.

Entry into farming

Regardless of the impact of changes in the educational system and in rural culture programmes like 4H, there is likely to be a surplus of young men wanting to enter the farming industry. For this reason, the Committee foresees a need for some method of restricting the number of farmers entering the industry.

Attempts to restrict credit or other indirect methods have serious drawbacks. A more direct and effective device would be for the marketing boards or the Food Supply Agency to limit the number of quotas granted to new entrants. Initially, this limitation would have to be based on examinations or trial periods in which new entrants would demonstrate their ability to manage a farm. Over a longer period of time formal training requirements could be introduced, which would have the dual function of giving the new entrant a good chance of success, and equipping him with useful skills which could be used in an alternative occupation if this proved necessary.

The Committee considers that the two-year diploma course in agricultural technology fills both these requirements. It should become the minimum entrance requirement for entry into farming by 1980 or sooner if possible.

Programmes for adults

Throughout society education has been recognized as a continuing process rather than an activity which ceases at the school-leaving age. Continuing education for farmers and other rural adults is extremely important. It prepares them for adjustments that they themselves must make and it affects their views regarding the education of their children. This adult education must not be purely vocational, but rather should encompass broader aspects of human interest – community development, political participation, and cultural activities. In the centres where Colleges of Applied Arts and Technology are located, they are intended to provide a community resource and recreation centre, correspondence courses, satellite courses in outlying areas, an information centre co-ordinated with the future use of educational television, conference facilities, and a community counselling service. It remains to be seen how well they will perform all these tasks. For areas far removed from Colleges of Applied Arts and Technology the local high school would seem to be the logical focal point of these community activities. There are challenging problems, but the potential for a great expansion of democratic participation in community life is an exciting one.

In the narrower context of occupational training, the present technical and vocational training programme is very confusing. It is composed of a number of ill-related, fragmentary programmes aimed at many different groups of people. The farmer seeking retraining is faced with a multitude of organizations and agencies. There is no central agency that he can approach to receive information about the whole system. Each institution has its own counselling service which is geared to the authority of the institution rather than to the needs of the individual. Among them are A.R.D.A., the Federal Department of Manpower, the Provincial Department of Education (C.A.A.T.'s and Adult Training Centres) and the Provincial Department of Labour, each one with its questions and never-ending forms which seem calculated to produce frustration and discouragement. Since no one has responsibility for the whole system, there is no evaluation of its relationship to the rest of the educational system, its current effectiveness, or its ability to meet future needs. There also seems to be a general tendency to emphasize labour demand with insufficient attention to the values, inclinations and aptitudes of the applicants.

Much more effective co-ordination of continuing education and vocational training programmes is necessary. The proposed Rural Human Resources Council can be an effective instrument of co-ordination. A government policy which gave more attention to tailoring jobs to people rather than trying to force people into available jobs would also have great merit.

Retirement programmes

We have stated previously that the number of people dependent on agriculture for a living has been declining mainly because of an excess of retirements over new entries. This process is not as rapid as might be expected because of a significant reverse migration back to the farm. A combination of restricted entry through quota assignment and a consolidation of retiring farmers' holdings into adequate farm units through public land purchases could alter the income distribution in the industry. The land consolidation programme could be achieved through expanding the operations of A.R.D.A., and through the Ontario Land Corporation recommended earlier in the report.

We have found that many farmers are prepared to retire to a local town but are not willing to move much farther. There are often no suitable houses in the local towns at costs which these farmers can afford. The Committee would therefore suggest that A.R.D.A. should provide housing for farmers moving from their farms at rental rates which the individual could afford. This might require that A.R.D.A. provide movable houses in rural towns or villages. Such a programme would reduce the cost of housing and would not result in permanent housing being placed in any location where it may not be required indefinitely.

Adjustment by society

The Committee has expressed at numerous intervals in the report its conviction that society through its governments must do far more to share the burden of structural change with farm and rural people. The three ways in which governments must

act are in controlling the impact of change on the agricultural industry, in beginning a serious regional development programme, and in instituting a more general income maintenance programme.

Controlling change in the agricultural industry

The control of factors affecting the industry is the area in which government has traditionally been most active. Therefore, the measures we suggest have a familiar ring, and do not require a major shift in policy.

Substitute products

The slow growth in the demand for food products is one of the economic facts of life which contributes to the need for adjustment of labour out of agriculture. The pressure for adjustment becomes doubly severe when new products appear which are substitutes for traditional food commodities; for example, the substitution of margarine for butter, and more recently, the arrival of a milk substitute made from vegetable oils. We are also informed that within very few years the livestock sector of the industry will be facing competition from substitute meats. These substitute products, if introduced rapidly, will create tremendous additional pressure on farmers, while providing marginal advantages to consumers. Until the mechanisms for helping farmers to adjust out of agriculture have been greatly improved, allowing the uncontrolled introduction of substitutes does not make sense.

The Committee recommends that the government of Ontario continue to pass laws which oblige the manufacturers of substitutes to distinguish their product clearly from the farm product with which it is competing. We further recommend that new products be extensively tested to ensure that they are nutritious and that they pose no health hazards before they are allowed on the market. Finally, in extreme circumstances the possibility of a temporary ban or a controlled introduction of substitutes should be considered as a legitimate social policy measure, providing farmers with time to make their adjustment in an orderly fashion.

Input industries

The relationship of farmers to farm input industries, especially the farm machinery and fertilizer industries, has for years received considerable attention. There has been no significant government intervention in spite of a gross discrepancy in bargaining power between farmers and the giant corporations. We have recommended some limitations on the use of corporate monopoly powers, but legislative measures are required and the government must lend its assistance in this matter.

Import competition

In our discussion of supply management, we made the distinction between fair competition, which must be met, and unfair competition based on subsidies or arising from the dumping of temporary unplanned surplus from other countries. An adequate defence against this type of competition requires the Federal government to adopt realistic trade policies for farm products or to establish a minimum stabilization level which insulates Ontario producers from serious temporary disruptions in the domestic market.

If situations arise in which established Ontario producers cannot meet fair competition, then the government must decide if this type of production is to be subsidized or abandoned. If the government decides that consumer prices will not be threatened by the disappearance of domestic production and refuses to pay a subsidy, then its adjustment programmes must provide acceptable alternatives for the producers affected.

Supply management

The purpose of our recommendations on supply management was to outline a set of institutions which would provide as many farmers as possible with adequate and stable returns from the production and marketing of farm products. The establishment of these institutions requires provincial legislation and the active support of the government of Ontario, especially the Department of Agriculture and Food. Federal government co-operation and assistance will also be required.

Regional economic development

The Committee has concluded, after extensive investigation of the agricultural industry and the income problems of farmers, that they are inseparable from the crisis facing the whole rural community.

Many phenomena are linked to the changes affecting agriculture, the economic base of the rural community:

the low incomes of many farmers
the depressed returns to all resources in agriculture
the tendency of rural youth and better-educated rural people to migrate to urban centres
the high ratios of young and old dependent people in the rural population
the high cost of public services in rural Ontario
the rising burden of municipal taxation on the working population which remains behind
the decay of rural towns and villages as the population they serve departs

The widespread incidence of low income due to structural changes in the national economy and the impact of new production methods is aggravated by the rising cost of modern services, especially education. The dwindling farm and rural population bears a growing property tax burden to finance the skyrocketing cost of schools. These costs are unusually high because of the greater distances to be travelled and the difficulty of attracting highly qualified teaching personnel to rural areas. But the benefits of this effort to raise the level of education are retained only in part by the rural community.

Many of the young people cannot remain to contribute their services and taxes to the communities which have educated them. Instead they migrate to distant urban centres where economic opportunities are concentrated. Migration of educated people represents a subsidy payment from the economically underdeveloped areas to prosperous urban areas.

This selective draining off of the educated, adventurous, young element of the rural population distorts rural life in an immeasurable and destructive way. The process goes on uncontrolled; it appears that the ultimate result will be the social disintegration of rural Ontario, all in order to create an ill-organized urban monstrosity, the 'Golden Horseshoe'. Could it possibly be plainer that we are being ruled by our technology and moulding ourselves to its demands?

In all walks of life individuals and institutions make isolated decisions, logical within the narrow contexts in which they are taken. Yet the general outcome is far from logical. What sane man would consciously choose the rural and urban social and physical environments our society is creating? The conclusions we must reach are obvious. We must begin to make more effective collective choices about the environment in which we live, rather than relying entirely on the haphazard results of individual decisions.

It is obvious that radical changes in the functions and structure of government are required to make collective decision-making more comprehensive and effective. The recommendations we are making represent a step in this direction.

Two things are apparent to us. The first is that monumental changes must take place if we are to control our environment instead of being controlled by it. The second is that the changes cannot occur unless large numbers of people become convinced of the need for them and translate this conviction into organized public debate and action. It is especially necessary that people in their institutional work roles welcome and promote change rather than resist it.

The Committee for its part is recommending two programmes which should receive top priority, but which will be difficult to implement under present conditions: regional economic development, and income maintenance.

The rationale for regional economic development is quite straightforward. The multitude of social and economic problems which exist in rural Ontario can be traced to the changes in its economic base, which is the agricultural industry. To be rejuvenated, rural Ontario must strengthen its economic base by broadening it to include productive activities other than farming and allied industries.

We have argued that income problems in agriculture are related to the fact that many farm operators and other rural people are effectively trapped in their present environment by a combination of their own customs, attitudes and work skills. Their income problems can be resolved properly only if suitable employment is brought within their reach, but the forces which lead to the concentration of job opportunities in a few large metropolitan areas make this impossible. Therefore deliberate government intervention to decentralize economic activity is essential.

It is widely recognized that regional economic development cannot guarantee the growth and prosperity of every town, village and hamlet in Ontario. A limited number of growth poles must be designated and all planning directed to the development of a complete range of services in the designated centres. An integral part of the programme is to involve the regional population intimately in the planning process and in the work of building up the new centres of activity.

It will not be sufficient to offer incentives to business enterprise to locate in the designated growth centres, because the attractions of existing urban centres are very strong from the point of view of private business. Active measures to control the headlong expansion of cities like metropolitan Toronto and its nearby satellites will be required. This calls for co-operation at all levels of government. Effective regional development cannot result from unilateral or haphazard planning decisions by municipal, provincial or federal governments.

Present programmes

The gap between what needs to be done in present-day Ontario and what is being done is distressingly large. The general population is conscious in a diffuse, unspecific way that many problems exist for which solutions must be found. This consciousness is a partial one which does not include an understanding of the connections between problems. The idea of regional development enjoys a certain currency among some high-ranking civil servants, but it has not been translated into a top priority policy objective. Yet this is clearly a matter in which the Government of Ontario must provide imaginative leadership. Most citizens, as they ponder the falling price of corn or survey the world from the heart of a traffic jam, do not think immediately of regional economic development.

One important reason why government has not fully appreciated the need for comprehensive action is that the senior civil service and the political parties have not perceived the close relationship between urban and rural development problems. The structure of the Government of Ontario is not conducive to such an understanding.

The Committee has come to realize that the Department of Agriculture and Food has been much more than a department to serve the needs of the agricultural industry. It has developed and supported such areas of responsibility as 4-H, rural education, and other community activities to meet the needs of the rural population. The Minister of Agriculture and Food is, in a sense, the voice of rural Ontario in the Provincial Legislature.

Most departments of government have developed a strong urban bias, and tend to refer numerous rural problems to the Department of Agriculture and Food for action. Each time this happens the practice of treating farmers and rural people as a peculiar and separate group is reinforced. The Department of Agriculture and Food has done what it can, but our whole analysis shows that its task conceived in this way is impossible. The resolution of rural problems must be related to the resolution of urban problems through the co-ordinated activity of all departments of government. Farmers and the rural population must not be regarded as a breed apart who can be dealt with in isolation from other programmes. All departments must accept their full responsibility with respect to the farm and rural population.

Government structure

The present organization of the provincial government is not well constructed to pursue the objective of regional economic development. The primary division of administrative responsibility is according to function (health, welfare, education, transportation), which makes co-ordination of these functions at the regional level rather difficult. The Regional Development Boards we are recommending will improve this situation by establishing regional plans within which all the federal and provincial government departments must operate, but this in itself will not guarantee adequate co-ordination. Some impetus from senior levels of the provincial government is also necessary.

The whole Cabinet has a general responsibility for regional economic development, but there is a need for a high level administrative committee which focuses more specifically on rural and regional issues.

The Committee appreciates the problems and responsibilities of administering a department of government. It is often difficult to avoid jurisdictional disputes and interdepartmental competition. It is also understandable that problems which cut across departmental jurisdictions cannot be attended to properly by any single department.

Department administrators are usually under pressure. They may not have the time, the opportunity or the inclination to consult with other departments with related areas of responsibility. This situation is not necessarily improved by the creation of additional departments, since this may increase the complexity of policy formulation, administration and co-ordination of activity. The alternative is to form inter-departmental committees at the senior administrative and Cabinet level. If they are to be effective, the recommendations and responsibilities of these committees must be recognized by the Cabinet and by the departments involved.

Farmers and the rural population have in the past had problems due to the unilateral action of some government departments. They have suffered economically and culturally because of the lack of comprehensive regional development planning. There is no coherent long term objective for the development of rural Ontario. Many separate policies are pursued by the several departments of government which affect the lives of rural people, but our investigations have not indicated any effective interdepartmental co-ordination in their administration.

Cabinet Committee on Rural Affairs

This government needs a focal point to co-ordinate its rural affairs programmes, but this does not require a new department. This responsibility to a large degree has already been accepted by the Department of Agriculture and Food, but it should be formalized. **We recommend the appointment of a Cabinet Committee on Rural Affairs under the Chairmanship of the Minister of Agriculture and Food.** This committee should be small, possibly including the Ministers of Agriculture and Food, Treasury and Economics, Education, Lands and Forests, Energy and Resources Management and Municipal Affairs.

This Cabinet Committee will need information to provide it with an overview of the roles of the various government departments in the regional development programme. The recommended Rural Human Resources Council is intended to furnish this perspective in matters related to education, guidance and vocational training for the rural population.

It is true that the government has made a few tentative steps toward studying the question of regional development. There is a Regional Development Branch in the Department of Treasury and Economics which is engaged in taking an inventory of provincial resources, delineating economic regions, and evaluating their development potential. Our Committee is concerned that this work is proceeding too slowly, and that it does not have the support that a commitment to far-reaching action would give it.

Another aspect of regional planning has been the establishment of Regional Development Councils. Unfortunately these Councils exist in an unreal context, a political and administrative vacuum. Creations of the provincial government, they have no authority to co-ordinate provincial government administration at the regional level, nor do they have any roots in local government. Under these circumstances they appear to be highly irrelevant and should be disbanded.

The Committee believes that successful regional planning cannot be superimposed from above, but must rather be based upon local participation. At the same time leadership from the provincial government is necessary to establish a system of regional planning and to set out guidelines within which the regional planning bodies may operate.

There are now a number of Joint Planning Boards which encompass several municipalities, but these Boards have not been notably effective. We recommend that Regional Development Boards be established to replace the welter of local planning bodies. These boards would be responsible for the development planning of economic regions, and thus should encompass groups of counties. The task of defining their relationships to the municipalities and counties as well as to the provincial government is a complex one. A significant restructuring of local government will be needed to establish political authority corresponding to the Regional Development Boards. To be successful the new Regional Development Boards must have a strong base in local or regional government and they must have authority through provincial legislation.

Income maintenance

The long-run programmes recommended by the Committee are, in essence, supply management for the agricultural industry and economic development for the neglected regions of the province. The combined objective of these programmes is to provide productive employment and adequate incomes for the rural population in a way that benefits both rural and urban society.

There will be a considerable lapse of time before the income and employment effects of these long-run programmes are felt. Furthermore our society is in a state of constant transition which creates adjustment needs not only for farmers and rural people, but for the whole working population. For this reason we need a continuing programme which spares particular individuals and families from bearing the full costs – social, psychological and economic – of structural change. We have pointed out that this process of change leads to greater national wealth, but that the gains frequently do not go to the people who bear the greatest cost of adjustment. In fact the opposite seems to be true. Those in our society who are least able to adjust to changing circumstances are driven into the vicious cycle of underemployment and poverty.

Social goals

The responsibility of a society toward its individual members is a matter of social philosophy. It must be observed that the goals of Canadian society in this respect are not clear. Politically we regard our society as free in the sense that certain civil liberties, at least theoretically, have been by consensus established as basic human rights. These include freedom of speech, freedom of religion, freedom of assembly, and equality before the law.

Canadian society has only partially recognized that individual freedom and dignity requires more than these important civil liberties; that in fact individuals, to develop their full potential, require a certain minimum of security which includes economic security, and that this minimum of economic security should be accepted as a human right.

The Committee disagrees strongly with the traditional welfare approach to individuals and families with low incomes. It has frequently been punitive and degrading to the people receiving public assistance. This is not a liberating but an enslaving method of dealing with human problems.

The proposals in this report have called for the improvement of services and the creation of job opportunities for farm and rural people. The Committee realizes that these proposals offer no relief from the most pressing need of low income families: the need for money.

To meet this need, the Committee recommends a Federal income maintenance programme which is relevant not only to low income farm families but to all income families: a negative income tax with a guaranteed minimum income.

In making this proposal we have kept within the bounds of practicality. Social considerations alone would have led us to propose a minimum income high enough to provide the bare essentials of life for all families. This might mean $3,000 guaranteed income for a family of five. We realized, however, that the rates of taxation on earned income that would be necessary to finance the governments and to pay for this programme would be very high, probably much higher than our economy can support.

Instead we are endorsing a more modest plan. It is of advantage to low income families, but also takes account of the revenue requirements of government and the effect of tax rates upon the incentive to work. We regard it as only the first step in the direction of economic security as a human right.

Our proposal can best be illustrated by an example. The effect of the negative income tax on a family with three children at different levels of income is shown in the table. The negative income tax is integrated into the present income tax structure. Its purpose is to provide the family with a minimum income of $1,500 and at the same time preserve the incentive to engage in productive employment.

Income effect of the negative income tax for a family with three children

Pre-tax income	Standard tax exemption	Tax rate	Taxable income	Tax payment	After-tax income
0	3,000	50%	−3,000	−1,500	1,500
500	3,000	50%	−2,500	−1,250	1,750
1,000	3,000	50%	−2,000	−1,000	2,000
1,500	3,000	50%	−1,500	− 750	2,250
2,000	3,000	50%	−1,000	− 500	2,500
2,500	3,000	50%	− 500	− 250	2,750
3,000	3,000	0%	0	0	3,000
4,000	3,000	13%	1,000	130	3,870
5,000	3,000	$130 + 16% of next $1,000	2,000	290	4,710

A family with three children is entitled to tax-free earnings of $3,000 under the present tax system. The modification we propose is that any family earning less than the amount of the exemption receive a payment from the government equal to 50% of the difference between its earnings and its tax exemption.

It is apparent that a low income family makes a net gain of only $1 for each additional $2 earned under this scheme, since the government payment falls as earned income rises. This could be regarded as a very high tax rate which would discourage work. We find it difficult to attach much importance to this argument since any person capable of working is unlikely to be satisfied with the minimum income provided. The negative income tax is of benefit mainly to low income working families.

It must be remembered that under existing welfare programmes, the welfare recipient loses his benefits entirely if he earns any significant income. This is equivalent to 100% taxation, and offers no financial incentive to work at all.

The negative income tax will assist people because they have low incomes, regardless of the reason. It is effective in the sense that public money is paid to people who really need it, and large sums are not misdirected.

This programme need not greatly increase the tax burden on the working population. Much of it could be financed with the money now paid out in family allowances, which is a wasteful form of transfer payment. The negative income tax would concentrate these funds in the area of greatest need.

Our research has indicated that potential savings from a number of income-transfer programmes would adequately finance this first move toward economic security as a basic right; these savings could accrue from the elimination of family allowances and the reduction of old age pension schemes to an amount equivalent to the difference between the guaranteed minimum income and the present level of old age security allowances.

There are a number of things our plan cannot do. Because of the low minimum income it provides, it cannot replace all existing welfare programmes. Specific programmes with benefits greater than those of the negative income tax would have to be continued to avoid worsening the situation of low income families and individuals who are almost completely dependent on welfare. The level of payments under these programmes could be reduced in consideration of the negative income tax payment, but the programmes would not disappear. For this reason it is not yet possible to eliminate the means test investigations which symbolize the inferior status of people receiving public funds and which interfere with constructive social work practices.

The low minimum income, while it would not eliminate dependence on the welfare system, would provide some low income families with a welcome supplementary income payment, and others with at least some money to which they have an unconditional right. If this money gives these families an element of autonomy and choice with respect to adjustment programmes of various kinds, all the better. Those responsible for the administration of such programmes will have to demonstrate their advantages to the people served by them. If the programmes are not advantageous to the population being served, then the programmes, and not the people, will have to be changed.

The negative income tax is not intended as a single solution to the problem of poverty but as an important element in a variety of programmes. There has been no specific mention of rural poverty or poor farmers. This is as it should be. The elimination of poverty must be pursued through policies that reach beyond particular sub-groups and particular sectors of the economy to serve the interests of all poor people, thereby preserving the integrity of our society.

RECOMMENDATIONS

The labour resource in agriculture (reference chapter 4 page 35)

	situation	recommended action
Service programmes for farmers	Present service programmes for farmers concentrate on information rather than assisting the farmer in making management decisions.	Help the farmer make decisions rather than simply providing him with information.
	Many farmers find it difficult to increase their management skill through education.	Develop service programmes that complement the management ability of farmers and assist them in making decisions. These include farm accounting services and personal consultation.
	How can service programmes be more effective in assisting farmers?	Increase the number of farm management specialists in the province and change their distribution to conform to needs of local areas. Encourage more personal contact between farm management specialists and farmers. Assist farmers in specific management problems.
	Private companies provide a wide variety of information and management advice as a service to farmers who buy their products. Advice of this nature is often not of benefit to the farmer in managing his whole farm.	Encourage co-operation between private companies and extension workers at the local level. Make extension workers aware of advice offered by private companies. Help farmers interpret advice from private companies through extension workers. Make advice comprehensive for all aspects of the farm enterprise so that advice on one enterprise does not conflict with the management of the whole farm.
Farm accounting services	How can farmers be encouraged to keep better records for use in managing their farms?	Make a comprehensive, simple and accurate accounting system such as CANFARM available to every farmer in the province. Encourage the use of this service through extension workers, farm organizations and marketing boards. Make use of CANFARM mandatory for all farmers who use government programmes such as credit, management counselling, input grants and A.R.D.A.

FARM OPERATIONS

(reference part II)

	situation	recommended action
Farm management and research	Many difficulties exist in relating basic research to the needs of farmers and farm management workers. The gap between the introduction and general adoption of new production methods is widening.	Conduct more research to complement farm management programmes. Emphasize short-term research to serve the existing needs indicated by field workers.
	How can farmers be helped in applying new production practices in their farm operations?	Conduct applied research to assess new production methods and determine how they can best be applied by farmers. Emphasize research relating to management. Study the possibilities of applying in Ontario the research results from other countries.
Education for rural youth	Many young men begin farming with very little chance of ever achieving success.	Encourage only new farmers who appear to have a good chance of succeeding. Prevent farm failures by pointing out the chances of success in farming to young people before they choose farming as an occupation. Establish formal entrance requirements for farming.
	What can be done to encourage only qualified people to enter farming?	Provide a sound general education programme for rural youth. Equip farm youth for jobs on or off the farm with good elementary and secondary basic education. Provide effective vocational agricultural training at C.A.T.'s and C.A.A.T.'s for those who choose to enter farming. Provide financial assistance to only those young farmers with acceptable levels of education. Require sufficient education that the individual could be readily adjusted out of agriculture in cases of farm failure.
	How can the number of young people who enter farming be reduced?	Provide much improved career guidance to give farm youth a better understanding of their opportunities off the farm. Assist young people in making the decision whether or not to farm.
	How can 4H and Junior Farmer programmes be changed to point out alternatives to farming for rural young people?	Change the present 4H and Junior Farmer programmes to programmes designed to broaden the education and outlook of farm youth and to include rural non-farm people.

	situation	recommended action
Education for rural youth		Establish *Rural Youth Councils* to make policy for the 4H organization and co-ordinate activities. These councils would involve farm and non-farm people interested in youth including educators, farm youth leaders, community recreation leaders, rural clergy and O.D.A.F. Reduce the amount of time spent by O.D.A.F. personnel on 4H Club activities.
Education for present and potential farmers	The management capacity of Ontario farmers is not being fully utilized. There are tremendous differences in the management skill of operators from farm to farm.	Help all farmers acquire better management skills. Stress the vital importance of farm management to farmers and others connected with agriculture.
	How can more potential farmers be trained as competent managers?	Expand enrolment in diploma courses for beginning farmers at C.A.T.'s and C.A.A.T.'s. Expand teaching facilities to ensure that beginning farmers enter farming with the required training.
	What can be done to upgrade the quality and diversity of education for beginning farmers?	Co-ordinate C.A.T.'s and C.A.A.T.'s courses. Develop such courses as part of the long term agricultural policy set out in this report. Emphasize management, bookkeeping and business courses.
	How can existing farmers be helped to develop their management ability?	Introduce educational programmes for adults in areas where they are not now available. Offer more short courses and in-depth training programmes in local areas. Emphasize continuing adult education to upgrade the management skill of farm operators.
Government responsibilities	How can government extension activities be better organized to provide more comprehensive service and educational training to present farm operators?	Train all local agricultural representatives in management consulting and credit counselling. Expand the role of farm management specialists in teaching farm business principles in short courses and clinics. Relieve local specialists of responsibilities in local societies and associations. Maintain close contact between private companies and government extension staff. Redistribute Extension Branch and A.R.D.A. staff to correspond to the numbers of viable, potentially viable and non-viable farmers in each area. Establish regional offices and provide specialists to assure all local farm management specialists and A.R.D.A. staff of adequate support and direction.

	situation	recommended action
Co-ordination of educational programmes	Educational programmes are offered to farmers through a large number of agencies. There is no effective co-ordination of these programmes and this lack of co-ordination may result in poor quality and duplication of effort.	Co-ordinate the activities of all existing educational programmes for farmers and farm youth. Evaluate these programmes on a continuous basis. Establish new programmes as the need for them arises. Discontinue programmes that are not effective.
	How can educational programmes for farmers be co-ordinated?	Establish a *Rural Human Resources Council* under the chairmanship of the Deputy Minister of the Department of Agriculture and Food which would among its many responsibilities co-ordinate and evaluate all the educational programmes for existing farmers, and vocational agriculture training for future farmers. The council should carry out a research and information programme to develop outlook information for guidance staff. It should be specifically responsible for co-ordinating courses at C.A.T.'s and C.A.A.T.'s and for giving leadership to Rural Youth Councils.
	To whom would the Council be responsible?	This Council should report to the Cabinet through the Minister of Agriculture and Food.
	How would the members of this Council be chosen?	From senior representatives of the Ontario Departments of Agriculture and Food, Education and Labour and the Federal Department of Manpower, as well as appointees from the rural community.
	Who will be responsible for the general education of rural youth?	Convince the Department of Education of its major responsibility for the general education of young people in rural areas. Evaluate rural education as it relates to the needs of farm people through the Rural Human Resources Council.

Capital on Ontario farms (reference chapter 5 page 47)

General considerations	Returns to all resources in agriculture are low. Too much land and too many people are employed in farming, and the proportions of capital, land and labour are out of balance.	Reduce the amounts of farm land and the number of farmers. Change the proportion of capital to land and labour in the industry.
	Progressive farmers cannot get sufficient long, intermediate and short-term credit with reasonable repayment terms.	Increase the flow of capital to good managers by removing present barriers such as tenancy and part-time farming. Remove restrictions on maximum amounts of credit available to good managers up to the needs of farms with three full-time workers.
	Farmers are not trained in financial management and find it difficult to deal with lending agencies in obtaining their credit requirements.	Upgrade the financial management ability of farmers so that they can deal more effectively with banks and public lending agencies.

	situation	recommended action
General considerations		Provide an adequate accounting service to all farmers in order to obtain the proper information for use in financial management.
	Under present lending policies, lenders emphasize the security of the loan rather than repayment ability when granting loans. Sufficient credit is not always granted to the best managers.	Place more emphasis on the farmer's repayment and management abilities in deciding future loans.
	Part-time farmers are discriminated against in present lending policies. Public funds are not available to part-time farmers who wish to expand their farms to full-time operations.	Encourage lending to those part-time farmers who will eventually make farming their major occupation and earn minimum resource returns.
Government input subsidies and grants	Direct input subsidies such as credit subsidies, freight assistance and capital grants discriminate against some farmers, are costly to taxpayers, and are of little benefit to farmers in that they may be capitalized into land values and values of other fixed assets. These subsidies may retard necessary changes in agriculture.	Re-evaluate input subsidy programmes and phase out subsidies that encourage unwanted production in the industry. Retain subsidies that are not tied to inputs but which improve the management ability of farmers (such as subsidies on farm accounts and milk recording). Eliminate capital grants except for farmers who are able to move from non-viable units to viable units or who are moving towards full-time operation. Eliminate feed freight assistance. Set interest rates at normal levels on credit granted through public agencies.
	Would this money be better spent in other programmes?	Make released funds available to implement recommendations in this report.
	How can Ontario farmers compete with other provinces if credit in these areas is subsidized?	Arrange through a Federal-Provincial agreement to standardize credit policies in competing areas, so that all farmers in all provinces pay the same rate of interest with no provincial interest subsidies. Offer competitive rates until that time.
Borrowing	Many farmers are using high interest credit (more than 10% per year) particularly for machinery and other farm supplies items.	Encourage the use of short and intermediate term credit at reasonable rates from available sources of credit.
	How can farmers be informed of the actual cost of their credit?	Give a clear explanation of simple annual interest rates for all loans.
	How can the use of high interest credit be discouraged?	Remove restrictions on maximum amounts of short and intermediate term credit from public agencies to one, two or three-man farms. Raise interest rates to normal levels so that more money can be made available.

	situation	recommended action
Credit sources and the availability of credit	Agencies dealing in low interest credit are not co-ordinated in their approach to farm lending.	Encourage co-operation between all credit agencies to provide an integrated approach.
	There are too many sources of credit to farmers. Present agencies duplicate services.	Reduce the number of public agencies involved in farm lending. Prevent duplication of services between the Farm Credit Corporation and the Junior Farmer Establishment Loan Board.
		Replace the Farm Credit Corporation and the Junior Farmer Loan Board with a single credit agency called the *Federal-Provincial Farm Credit Bank*. This agency would be administered by the province under a Federal-Provincial agreement. The agency would provide long-term financing only.
	How can credit be better suited to the particular needs and repayment capacities of farmers?	Encourage co-ordinated financing through public and private sources with the credit specialists co-ordinating repayment schedules. Tailor the terms of repayment to the type of operation and repayment capacity of the farmer. Consider the repayment ability of the operator as well as the security of the loan in future lending policy.
	How can private lending agencies (banks, trust companies, insurance companies) be encouraged to play a more prominent role in farm lending and eventually to become the prime lenders to farmers?	Reduce the risk to private agencies of farm lending. Make farm lending more profitable to private agencies by eliminating government subsidized credit. Institute a system of government guaranteed loans from private agencies to farmers on the recommendation of government credit specialists, on the same basis as the present Farm Improvement Loans Act.
Better credit service	How can credit to farmers be improved through a single public agency?	Streamline legal procedures. Allow the amounts of loans to be changed without complete refinancing. Shift the responsibility of approving most loans from the provincial to the regional level in order to avoid unnecessary rigidity and delay in public lending.
Credit counselling and farm management	How can farmers be assisted in obtaining credit from private and public agencies?	Employ local farm management specialists and regional credit specialists to assist farmers in determining their credit requirements for the most efficient use of capital. Make regional credit specialists responsible for all aspects of the credit programme in their respective areas. Have regional credit specialists assist local farm management specialists in credit counselling.

	situation	**recommended action**
Credit counselling and farm management		Use these specialists at local and regional levels to assist farmers in obtaining credit from all sources, including private agencies. Help farmers prepare credit programmes and approve such programmes.
	How can an adequate number of local farm management specialists and regional credit specialists be obtained?	Hire and train extra specialists at the local and regional levels. Integrate Farm Credit Corporation field staff with Extension Branch personnel as local farm management specialists and regional credit specialists to provide as many people as possible for the total farm management programme. Provide equitable sharing of costs for these programmes between Federal and Provincial governments.

land tenure (reference chapter 6 page 52)

General considerations	Income used to make payments on land is saved income and is tied up until the land is sold.	Reduce investment in land which ties up capital income in the form of payments on land purchases, and replace land purchases with land rentals.
	The restrictive terms and conditions of present leases and the small amount of land available for renting do not give farmers much opportunity to rent farms.	Improve terms and conditions of farm leases. Increase the quantity of farm real estate which is owned by persons who are not farm operators.
Terms and conditions of renting	What changes in the terms and conditions of farm leases would make renting more attractive to farm operators.	Enact in legislation the *Farmland Rental Act* to improve terms and conditions of renting. Lease farms and farm land on a long term basis with provisions to make the tenant more secure.
	How can long term leasing be encouraged?	Promote long term leasing through information and educational programmes. Make farmers and owners more aware of the advantages of long term leases in terms of greater security and higher productivity. Legislate a minimum notice period for termination of leases on land and buildings used for farming. Bring in sections of the legislation over a four or five year period to allow adjustment to take place. Zone all land in Ontario according to uses to which land can legally be put. Discourage short term leasing based on owners' optimism about more profitable alternative uses for land in the near future. Marketing and credit agencies should follow policies which encourage long term leasing.

	situation	recommended action
Terms and conditions of renting		Legislate compulsory renegotiation of rental rates every two years if either the farmer or land owner requests it in cases where a long term lease exists. Provide for arbitration in cases of unresolved conflict. Establish an *Ontario Land Corporation*, financed through bond issues and share capital which purchases land and rents on leases extending for periods of up to 25 years.
	What types of leases best suit the needs of farmers?	Written leases with minimum leasing periods determined on basis of type of farming. Revolving leases, for which the minimum period for notice of termination is the same as the length of the lease. The lease is automatically renewed annually for a further full period equal to that of the original lease if notice of termination is not given.
	How can farm operators be encouraged to make improvements to land they rent?	Require that compensation be paid to a farm operator who makes improvements to land or buildings that he rents, and which are not yet used up when the lease is terminated. Provide for arbitration of disagreements about value of unexhausted improvements.
	What can be done to encourage land owners to rent land for farming in areas where alternate uses exist?	Inform land owners that tenants will better manage the soil with long term leases. Introduce land use planning and regulation which designates uses to which land may be put.
Quantity of land for rental	How can more non-farmer capital be encouraged into land ownership so as to increase the quantity of land which is available for renting?	Encourage the movement of investment funds from non-farm sources into land ownership. Undertake advertising programmes for this purpose. Extend programmes to help farmers with low incomes and low levels of returns on capital and labour to adjust to non-farm occupations. Encourage these farmers to sell their land to A.R.D.A. or to the Ontario Land Corporation if A.R.D.A.'s present land consolidation programme cannot be expanded. Induce private investors to invest in agricultural land through the Ontario Land Corporation.
	How can farmers be helped to understand that land is not always the best vehicle for savings?	Help farmers to determine their need for personal savings for the future. Counsel them to take into consideration their total net worth (including equipment and working capital) and the extent to which government programmes will provide them with retirement income. Counsel farmers on the best timing of their savings schedule. Indicate that often the best time for building up savings is not in the early years of the operation of their farm enterprise.

	situation	recommended action
Quantity of land for rental		Help farmers to understand the degree to which holding all of their savings in land can limit their own flexibility of choice in terms of alternate kinds of farm production and alternate occupations in the future, as well as limit the flexibility of choice of occupation for their heirs.
Capital invested in land	Rising land prices have made it difficult for farmers to purchase more land for expansion. It is even more difficult for beginning farmers to purchase all of their land requirements.	Encourage tenancy arrangements. Allow good managers to increase the size of their farms without the financial burden of land ownership.
	How can tenancy be encouraged through credit policies?	Make credit readily available to tenant operators under the same conditions as for landowners. Use long-term written leases as security for loans. Remove present restrictions imposed by public agencies on lending to tenants.

land use planning and regulation (reference page 59)

General considerations	The interests of all people in a community are often not considered in the decision of a developer, business, or industry to locate in an area.	Develop land use plans which set out publicly how land should be used in the future. Take into consideration the social and economic advantages and disadvantages of particular uses to all people concerned. Zone land according to land use plans so that the direction of the development of land use is clearly set out by law and made public.
Land use planning and zoning	How can farmers be protected against the location decisions of industrialists and developers which give rise to fluctuating and uncertain land prices, increased property taxes, lowered water tables, and polluted land, water and air in farm areas?	Guide and direct development through plans and land use regulations which include farm land as part of the overall plan.
	What general principles should be followed for determining a pattern of overall land use in Ontario in the future?	Determine what land is to be used for farming in the future, and designate such land for farm use only. Transfer some marginal lands into forest and recreation uses when this gives larger benefits to society. Develop park and recreational uses of land in southern Ontario, and particularly in areas close to large population centres. Encourage private investment in recreation and tourism, particularly on marginal farmland in southern Ontario, in conjunction with public expenditures in these areas. Stabilize any further expenditures on public parks in northern Ontario for the present. Concentrate expenditures in southern Ontario where more people will realize a greater benefit.

	situation	recommended action
Land use planning and zoning		Regulate carefully the location of land which is to be used for urban, residential and industrial development. Integrate land use policy with a policy for regional development. Encourage urban development in areas outside the present industrial fringe around Lake Ontario. Implement policies which encourage industrial location such that the costs of large population and industrial concentrations are avoided in the future.
	What kind of government policy would lead to development of urban centres according to a rational pattern that would be beneficial to both urban and rural dwellers?	Develop land planning and a system of economic incentives as part of a serious commitment to develop all settled regions of the province according to the types of industries best suited to each region. Organize industrial housing, transportation and recreation facilities for residents of planned regional growth centres as part of a serious regional development plan. Develop a government employment policy. Maintain certain minimum total levels of employment of labour in each region of the province.
	What can be done to introduce comprehensive land use planning into the Province of Ontario?	Organize *Regional Development Boards* to amalgamate existing land use plans and to extend land use plans to cover all of southern Ontario. Establish the *Ontario Land Resources Commission* under legislation to co-ordinate land use planning in the province, and to approve financial grants to regional planning boards, so that they can undertake comprehensive land planning. The Commission would be the final authority on all land use in Ontario. Government departments would operate within the overall land use policy of the Commission.
	How can land required for farming be taken into account in land use planning and regulation?	Specifically designate what land can be used for urban development thus preventing speculative inflation of farm land values. Undertake social and economic studies of land needs for food production in the future in various regions of the province, and provide this information to regional planning boards. Develop plans of areas for residential and industrial development which ensure that services will be paid for by those using the services. Farmers should not be squeezed out of production by high taxes to pay for services which they do not use. Prohibit industries and urban centres from polluting air, water, and land in all areas of the province.

	situation	recommended action
Land use planning and zoning		Ensure co-operation and communication between Regional Development Boards and marketing agencies for farm products so that the amount of land needed for farming purposes can be estimated and conserved. Integrate land use plans with programmes for adjustment of people and resources out of agriculture. Co-ordinate activities of A.R.D.A. and O.D.A.F. with work of Regional Development Boards.
	How can land developers be persuaded to accept plans drawn up by Regional Development Boards?	Give land use plans legal status under the Ontario Land Resources Commission.
	What can be done to encourage municipalities to pass by-laws according to land use plans?	Educate municipal councillors concerning the benefits to be gained by the residents of a municipality from land use regulation. Document the long term losses to all residents of the province under conditions where municipalities compete for industrial development through a policy of exercising less control over land use than neighbouring municipalities. Draw up model land use regulation by-laws for municipalities and give municipalities legal assistance in adopting by-laws.
	What can be done if municipalities do not make any progress by 1970 in the establishment of Regional Development Boards in the economic regions?	Centralize land use planning and regulation in the offices of the provincial government. Draw up land use plans for all of southern Ontario. Have the provincial government give these legal status through legislation.
Changes in land values	What policy would equitably take into consideration changes in land values which would result from the adoption of comprehensive land use plans for all of southern Ontario?	Provide compensation programmes for landowners who suffer losses in land value through land use regulation.

property taxation (reference chapter 7 page 67)

Specific considerations	What can be done to make the property tax more equitable?	Assess land values on the basis of a fair and consistent method which reflects the market value of the property. Develop a property tax policy which recognizes that the highly inflated land values limit the ability of the owner to pay taxes.
	What can be done to make the property tax more consistent with the benefit principle of fair and equitable taxation?	Assess all property at market value. The taxable assessment should be a proportion of this value which depends upon the use made of the property. Establish the taxable assessment for farm property at 40% of market value.
	High speculative land values place a property tax burden on farmers which severely reduces their income. How can this be avoided?	Develop a secondary taxable assessment of farm land based on farm productive value.

	situation	recommended action
Specific considerations		Defer the tax on the difference between the market value and farm productive value assessments with interest accruing on the deferred tax. Pay the deferred tax plus interest when the land is sold for non-farm use. Stabilize market values through comprehensive land use regulation.

taxation of income (reference page 70)

	situation	recommended action
General considerations	The burden of the income tax must be distributed fairly among all income earners in society based on their capacity to pay tax.	Remove any income tax regulations which either permanently exempt incomes from taxation or which tax particular incomes twice. Develop a just tax policy for agriculture which is flexible enough to allow for the special conditions of farming.
Specific considerations	Should the accrual method of declaring income be made compulsory for farmers, as was recommended by the Carter Royal Commission on Taxation?	Leave choice between the cash method and accrual method up to farmers because of the special nature of farm inventory fluctuations.
	What changes should be made in methods used by farmers for calculating depreciation allowances on capital stocks used up in production?	Require use of reducing balance method as this more accurately reflects the actual decrease in value of equipment as it becomes older and wears out. Permit all small business operators to accelerate depreciation allowances, with a full 100% write-off allowed in initial year of purchase if desired. Change depreciation rates now used to permit more rapid depreciation of farm equipment which has a rapid rate of economic depreciation. Introduce a capital gains tax with above accelerated depreciation allowances so that small business operators do not avoid tax on items sold immediately after accelerated write-off.
	How can tax regulations take account of the fact that land ownership provides a means of savings for farmers similar to many pension funds for non-farmers?	Defer on an optional basis, tax due on income invested in land until retirement or transfer of farm enterprise through gift, sale or death. Set maximums on amount of tax which can be deferred on the same basis as those established for pension plans.
	How can the tax system be modified so that those in our society who receive capital gains pay a fair share of taxes?	Introduce a capital gains tax of the basic type proposed by the Carter Royal Commission on Taxation, by which capital gains are treated as income.
	What form of capital gains tax would distribute the tax burden fairly?	Provide tax exemptions on capital gains to take into account increases in values of assets due to inflation. These increases do not reflect a real gain in purchasing power.

the farm machinery industry (reference chapter 8 page 79)

	situation	recommended action
General considerations	Prices of farm machinery and parts have risen rapidly in recent years. These rising prices narrow farmers' profit margins and lower farm incomes.	Stop unwarranted increases in the prices of farm machinery and parts.
	The farm machinery industry is dominated by a few large firms. A franchised dealership system extends control to the retail level, resulting in little bargaining power for farmers. This dealership system is used to maintain a high-price machinery market in North America compared to other parts of the world.	Re-organize the purchasing of machinery and repair parts so that farmers have more bargaining power in relation to machinery companies.
	Dealership and sales organizations are excessive in number and exorbitant in cost.	Reduce the number of retail outlets in order to lower the total cost of selling machinery and parts.
Specific considerations	How can unwarranted increases in the prices of repair parts be stopped?	Request that farm machinery companies set up central warehouses to stock parts at reasonable prices. Establish an *Ontario Farm Machinery Crown Corporation* to administer the central warehouses if machinery companies do not maintain sufficient stocks of parts to meet farmers' needs or to set up central warehouses if machinery companies do not wish to do so.
	How can farmers obtain better service for parts and repairs?	Make as many parts as possible interchangeable between different types and makes of machines by cross-referencing. Keep large stocks of parts on hand at central parts depots, and keep central depots open for long hours during planting and harvest rush periods. Ensure that these outlets are staffed by qualified personnel. Have a common delivery service from each central depot. Conduct training sessions for farm machinery servicemen at C.A.T.'s and C.A.A.T.'s.
	How can farmers obtain machinery more suited to their requirements?	Conduct studies at agricultural colleges to adapt specialized machines to Ontario conditions. Import farm machinery from other countries if suitable machines at reasonable cost are not available from domestic suppliers or if cost savings can be obtained.

FOOD PRODUCTION AND MARKETING

(reference part III)

	situation	recommended action
Specific considerations	How can the cost of farm machinery be controlled?	Publish suggested retail prices and maximum markups. Encourage machinery companies to reduce the number of dealers and provide better service at fewer, larger outlets. Consider central purchasing and wholesaling for machinery through the Ontario Farm Machinery Crown Corporation. Consider the elimination of exclusive dealerships.

the fertilizer industry (reference page 81)

General considerations	Fertilizer is produced on a year-round basis. Fertilizer use by farmers is during short periods in the spring and fall. This results in high storage costs and seasonal transportation problems.	Improve the distribution system for fertilizer.
	The combined cost of overhead, inventories, transportation and selling is much greater than the cost of producing fertilizer.	Encourage the application of fertilizer at more regular intervals throughout the year.
	Fertilizer pricing practices are not consistent between regions. Prices in Ontario are higher than in other areas, and manufacturers are establishing retail outlets to protect their operating margins in the province.	Give farmers more bargaining power in relation to fertilizer companies.
	The race to establish retail outlets by fertilizer companies is leading to duplication of facilities. This could add greatly to the cost of fertilizer to farmers.	Prevent the duplication of bulk blend plants and expensive service facilities in rural areas.
	Fertilizer companies could possibly integrate their operations by taking up farming themselves.	Prevent vertical integration into farming by fertilizer companies through a more effective producer marketing system.
Specific considerations	How can the application of fertilizer be encouraged at more regular intervals throughout the year?	Persuade farmers to make bulk fall fertilizer applications and to store fertilizer in bags in winter for spring application. Guarantee a system of effective discounts that gives farmers an incentive to take delivery of fertilizer in late summer, fall and winter.

	situation	recommended action
Specific considerations	What can be done to prevent the duplication of retail outlets for fertilizer?	Establish a *Fertilizer Review Board* which would grant licences to private companies and co-operatives to sell fertilizer in specific areas and review continuously all aspects of the fertilizer industry. Make retailing areas large enough for efficient use of bulk blend plants (5,000 to 10,000 tons per plant).
	How can fertilizer prices and quantity discounts be established at reasonable levels?	Have the Fertilizer Review Board determine terms and conditions of sale and review pricing practices. Import fertilizer from other areas if this is to the advantage of Ontario farmers.

manufactured feed industry (reference page 82)

General considerations	There is a great deal of financial instability in animal production, particularly poultry, eggs, and hogs.	Provide financial stability to producers of livestock products.
	Feed manufacturers have integrated vertically in turkey and chicken broiler production. Integration is probable in egg and hog production.	Resist the extension of vertical integration by feed companies into other types of livestock production.
	The returns to producers of livestock under contract with feed companies depend upon the conditions of the contract and the financing arrangements for feed.	Ensure that contracts provide acceptable returns to producers.
Specific considerations	How can integration by feed manufacturers into livestock production be discouraged?	Encourage farmers to provide their own feed through crop production where practical, as a substitute for manufactured feeds. Continue research to provide farmers with advanced production practices and breeding stock. Assure independent farmers of access to capital for investment in modern facilities, and flexible standby credit to add to operating capital. Give premiums to farmers for developing better breeding stock or better quality products.
	How can farmers assume control of the vertical integration process?	Integrate production and marketing through producer marketing agencies which will replace integration by feed companies with integration over which farmers have control. Manage supply and develop forward pricing practices in order to give independent farmers financial stability in animal production. Place a maximum size on the amount of production quota that any one individual (or corporation) can hold.

General marketing (reference chapter 9 page 84)

	situation	recommended action
General considerations	The agricultural industry in Ontario suffers from over-production, which sometimes results in excessively low prices. Capital and labour in the industry do not receive returns equal to returns to resources of similar quality in the more highly organized sectors of the economy.	Introduce supply management where it is necessary to limit over-production. Follow with an effective plan to prevent recurrence of over-production.
	The agricultural industry is made up of thousands of farms. Production decisions of the individual farms are not co-ordinated in advance, with the result that production and prices fluctuate in an undesirable way. Individual farmers are faced with a great deal of uncertainty about product prices.	Minimize production cycles and price uncertainty by means of comprehensive supply management for products reaching the food market in Ontario. This means the development of a rational system for predicting and planning for an adequate supply of food from all sources, including interprovincial movements and imports.
	A great many farmers have too few resources to earn an adequate income, even at reasonable and predictable product prices.	Create programmes to help potentially viable small-scale farms reach a size which provides adequate income to the operator and family. Create off-farm employment opportunities for small scale farmers who do not have the resources needed to compete in agriculture. If necessary for both efficiency and humanitarian reasons, supplement the incomes of small scale farmers until the necessary adjustments have been made and adequate incomes are in prospect.
	The food marketing system as presently organized does not market food effectively. There is little conscious attempt to ensure that the producer's interest is adequately considered by processors and retailers. Producers have no accurate information from consumers, retailers or processors to evaluate the performance of the marketing system.	Develop a 'market sense' in producers of food and food products. Create a strong marketing organization for all products to protect producer interests. Create systematic contacts between producer marketing organizations and consumers, retailers and processors. The producer should be constantly informed about deficiencies in his marketing programme, so he can press for improvements.
	The food marketing system is adapting too slowly to changing conditions. Marketing costs are higher than necessary in processing and retailing, to the disadvantage of both producers and consumers.	Ensure that producer marketing agencies are aware of and responsive to these changes. Inform both producers and consumers of the inefficiencies in the present marketing system. Provide producers and consumers with the bargaining power necessary to force changes in the direction of a more efficient marketing system.

	situation	recommended action
General considerations	Producers are in a weak bargaining position as sellers. This is true even when they are organized in marketing boards. Producers must relate their production decisions to what the market requires if they hope to improve their bargaining position.	Improve the organization of the market. Forward contracts and other methods of supply management should be considered.
	How can producers ensure that they get efficient and satisfactory performance from the marketing system?	Support strong marketing organizations, and create a strong, general farm organization to assess continually the marketing job.
	What are the limitations of present marketing agencies?	Marketing boards have made many improvements but they have not kept up with the changes in processing and food retailing. To deal with these very large firms, it is necessary to be big and powerful and to represent more than a single group, or a small, regionally centred group of producers.
Co-ordinated supply management	What can be done?	Institute co-ordinated supply management of all major agricultural products to prevent the creation of excess productive capacity. Institute co-ordinated supply management of all major agricultural products to provide known forward prices and an orderly expansion of production.
	How can supply management be undertaken in an orderly way, with equitable results for all producers?	The initial step is to create fewer, larger agencies which will consolidate groups of the present boards. Large boards can provide better service at lower cost to producers. They can also provide a better marketing service to processors and retailers.
	How many consolidated agencies would be needed?	Seven large boards could market all commodities produced in Ontario. The present boards could be grouped into: milk, meats, grains, eggs, fruits and vegetables, tobacco and special crops.
	What new services would grouped agencies provide?	Many services can only be provided by individual boards at very high cost, if at all. A larger agency could resolve conflicts between smaller boards. A larger agency could provide a common data bank for continuous assessment of market conditions.
		A larger agency could draw upon a stronger research and marketing staff to develop and implement its marketing plan. A larger agency could be more effective in dealing with powerful corporations in the food industry on behalf of all farmers.
	Why not a single co-ordinating type of marketing agency for all farm products?	There are both advantages and disadvantages in moving to a large, central marketing agency for all products – we have called it a *Food Supply Agency* – we have recommended that it be given serious and early consideration. It is desirable to move to the Food Supply Agency immediately as a co-ordinator of all producer marketing efforts in the province.

	situation	recommended action
Co-ordinated supply management	How would the Food Supply Agency provide certainty to farmers?	Negotiate long term forward sales contracts with food processors and retailers, and develop estimates of future demand. Sign delivery contracts with farmers for specified quantities of product at specified prices in advance of production on the basis of these demand estimates.
	How would the Food Supply Agency regulate the total volume of production and distribute the right to produce among individual farmers?	Estimate demand and production needed to fill that demand. Negotiate prices sufficient to give adequate returns to resources on a maximum number of properly managed farms. Annual delivery quotas and contracts would then be issued to farmers.
	How would the Food Supply Agency initially allocate delivery quotas among farmers?	Give each farmer an initial allotment based on past production. Make his quota a standard fraction of the allotment.
	How would the Food Supply Agency distribute new quotas and transfer old ones?	Phase out the sale of quotas. In the future, assign non-saleable quotas to farmers to pursue economic and social objectives established by the General Farm Organization and the government. Establish a formal appeal mechanism for farmers dissatisfied with their quota.
	How would the Food Supply Agency co-ordinate the needs of buyers with farmers' deliveries?	Take ownership of the product under a system of delivery contracts. Arrange for transportation and storage necessary to guarantee supplies of quality product to the market.
	How would the Food Supply Agency price the product it purchased?	Take into consideration international and interprovincial competition, and within these constraints negotiate prices. If levels are sufficient to yield competitive returns to resources on well-run farms of adequate size in Ontario, no further action will be necessary. If prices are not high enough to yield competitive returns to resources, the F.S.A. should request that the General Farm Organization intercede to negotiate more favourable terms or adjustment programmes.
	What action will be taken if international and inter-provincial competition create price levels which do not yield competitive return to resources?	Meet fair and reasonable competition. In temporary situations the General Farm Organization should negotiate with Government for subsidies to incomes of producers disadvantaged by imports. In permanent situations, Government must determine whether or not the best interest of consumers would be served by subsidizing domestic producers or by phasing out the industry and importing requirements. In any event, long term policies should be established and producers advised of all considerations.
	How would the Food Supply Agency deal with unfair competition from abroad?	Recommend through the G.F.O. trade policies which would automatically protect Ontario farmers against dumped and subsidized imports. Seek the co-operation of the Federal Department of Trade and Commerce.

	situation	recommended action
Co-ordinated supply management	How would the Food Supply Agency affect the present trend toward farm consolidation and vertical integration in the industry?	Provide through its delivery contracts a technique of production scheduling which would reduce the incentive for backward integration by processing companies. Refuse to allocate delivery quotas to farm supply and processing corporations. Provide opportunities for a maximum number of properly managed one, two or three-man farms through quota allocation policy.
	How would the Food Supply Agency affect relative bargaining power in commodity markets?	Increase the farmers' bargaining power by making the F.S.A. the sole selling agent for Ontario agricultural products. Promote the greatest possible demand for Ontario commodities in co-operation with processors and retailers.
	Who would guide the activities of a co-ordinating type of F.S.A.?	A Board of Directors which would consist of representative of each marketing agency and three outside members representing the G.F.O., consumers and the public interest. Each marketing agency would have a manager responsible directly to the directors of that agency.
	Who would evaluate and criticize the performance of the Food Supply Agency on behalf of farmers?	Create an effective General Farm Organization which represents all farmers and has sufficient finances to permit research and evaluation of the Food Supply Agency from the farmer point of view.
	On behalf of the public interest?	The Farm Products Marketing Board would continuously analyze the performance of the F.S.A. and would issue a detailed annual review of its operation through the Minister of Agriculture.
	On behalf of agri-business?	Agri-business organizations would act as a constant critic of the F.S.A.
	Who would determine the rates of return to capital and labour which guide the pricing policies of the Food Supply Agency?	Establish formal negotiations between the General Farm Organization and government to decide rates of return to resources.
	What steps are required to bring present marketing boards into more effective groups and to move toward a Food Supply Agency?	Call a meeting of the present marketing boards in early 1969 to discuss the necessity for immediate grouping of some boards into large agencies. Pass enabling legislation through the Ontario Legislature. Initiate detailed study, documentation and negotiation required to bring the boards together. Appoint staff necessary to study the service functions required immediately by all grouped boards, and to undertake the negotiation leading to formal grouping. As soon as possible, the grouped Boards should appoint an executive director who would institute a variety of new services to all the grouped Boards. These would include, first of all, a data collecting system for the F.S.A., and a central economic research office.

	situation	recommended action
Centralized supply management	Assuming that consolidation of marketing boards into fewer larger boards and co-ordination among these boards does not counteract overproduction and lead to price stability, what more can be done?	Set up a centralized Food Supply Agency where all products would be under the jurisdiction of a single agency and have a single General Manager.
	Who would guide the activities of a centralized type of F.S.A.?	A Board of Directors which would consist of representatives from each commodity group and members representing the G.F.O., consumers and the public interest. A single General Manager would be responsible for the administration of all commodities and would report to the general Board of Directors.

The General Farm Organization (reference chapter 10 page 101)

General considerations	Many of the Committee's recommendations point out the need for farmers to provide a unified approach to government and other organizations. At present the potential influence of farmers is paralyzed because they attempt to express themselves through the Ontario Farmers' Union, the Ontario Federation of Agriculture, and the various marketing boards and commodity associations. No clear statement of position or focus of attention on the industry emerges from the unco-ordinated activities of these organizations.	Create a *General Farm Organization* to speak on behalf of farmers where a united front is required. The tasks of the General Farm Organization would be numerous. In general terms, it would – 1. Co-ordinate the action of farmers. 2. Develop policies on farm income. 3. Advise the government on problems relating to the industry and to rural affairs. Specifically, the General Farm Organization would: Evaluate and criticize the performance of the Food Supply Agency. Negotiate rates of return to labour and capital with the government, on the advice of the Food Supply Agency. Negotiate quota allocation policy with the government for the Board of the Food Supply Agency. Evaluate and criticize the performance of the Ontario Farm Machinery Crown Corporation. Advise the government on issues of agricultural subsidization. Advise the government on imported products and appropriate trade policies. Advise the government on taxation policy. Advise the government on land zoning and regulation. Advise the government on many aspects of regional development policy or the absence thereof.

	situation	recommended action
Specific considerations	How would these changes take place?	Co-ordinate the activities of the marketing boards into the administrative structure of the Food Supply Agency. Replace the Ontario Farmers' Union and the Ontario Federation of Agriculture by the General Farm Organization.
	How would the General Farm Organization be established?	Government should pass necessary legislation which would be held in abeyance and proclaimed only when farmers have indicated their desire to proceed. Ideally the O.F.U. and O.F.A. would co-operate and build the new structure together. However in the event either fails to co-operate the other should proceed with all practical haste to achieve the type of G.F.O. outlined in the body of the report.
	Who would the General Farm Organization represent?	All farmers in Ontario. Organize representation on the principle of one man, one vote. All farmers must contribute financially through an assessment on production. Membership must be voluntary. Only those farmers who pay a membership fee will participate in elections and policy decisions.
	How would the General Farm Organization be financed?	Finance by a combination of membership fee and product checkoff. Develop financing independent of government.
	How would the General Farm Organization be organized?	Establish a 'grass roots' organization based on local participation. Form local units with proportional representation at the regional and provincial levels. The ultimate goal must be to achieve a G.F.O. in all provinces. Efforts of provincial G.F.O.'s should be co-ordinated through a National G.F.O. which will be required before a provincial G.F.O. can be completely successful.
	What would ensure that the General Farm Organization and the F.S.A. are close to the needs of the farming community?	Start a programme which will induce individual and public interest and involvement in policy formulation.

Commodity by commodity analysis (reference chapter 11 page 105)

Grain marketing – general considerations	Grain storage facilities are inadequate and have not expanded rapidly enough to meet increased demand, especially in newer cash grain areas. There is little or no storage for hire at local elevators, where producers can hold grain for future sale. Drying capacity has not kept pace with increased demand, forcing producers to invest in on-farm drying facilities. Handling facilities for receiving and loading out grain are inefficient and result in serious time loss by producers at harvest time.	Set up an *Ontario Grains Marketing Board*, representing producers of all cash grains. Determine the requirements for additional storage facilities. Investigate the feasibility of local and sub-terminal elevator facilities, to be controlled by the Board.

	situation	recommended action
Grain marketing – general considerations		Investigate the relative costs and benefits of farm and elevator storage to ensure that the most efficient approach is taken to the creation of increased facilities. Account should be taken of harvesting bottlenecks on Ontario farms. Use the Farm Machinery Syndicates Credit Act for financing the construction of farm storage facilities. Negotiate with elevator operators to obtain improved service and expanded storage and drying facilities. If necessary, construct and lease or operate additional facilities to ensure that storage is available as required by producers.
	Grain producers are faced with serious transportation problems in Ontario. A shortage of boxcars aggravates the lack of storage capacity and the system is usually plugged at harvest time. Terminal elevator capacity in southwestern Ontario is inadequate and not always available for local grains. Low-cost water transportation is not available for Ontario grains. Transportation rates on grain by rail and truck are relatively high.	Press for prompt action on transportation problems through the Ontario Grains Marketing Board. Develop a comprehensive programme for improved grain assembly, storage, drying, marketing, (storage and drying terminals at water, etc.) and implement through O.G.M.B. Examine the feasibility of water-based terminal facilities on the basis of their contribution to the industry rather than on the financial feasibility of the storage operation alone.
	Grain producers are in a weak bargaining position at the point of sale. Lack of public storage compels them to sell at harvest time. Their choice of outlet is limited to a few elevators operating in the locality. In many cases they have little alternative but to sell at the elevator where they purchase supplies on credit. Many dealers secure credit with delivery contracts or agreements.	Empower the Ontario Grains Marketing Board to: Co-ordinate production decisions to encourage the output of quantities of cash grain that can be sold in the market where Ontario product enjoys advantages. This requires a supply management programme covering all grains produced for sale. Negotiate uniform conditions of sale including moisture discount rates, drying charges, storage charges and methods for determining grade and moisture content. Negotiate forward prices and use all other means to improve and stabilize price.
	How can the importation of grain as a device to affect the price of Ontario grains be prevented?	The O.G.M.B. should maintain detailed information on all grain movements into the province to ensure that terms are a reflection of true costs of production. The O.G.M.B. would work closely with the Canadian Wheat Board and the Eastern Canadian Livestock Feed Board in this role.
Grain marketing – winter wheat	The Ontario Wheat Producers' Marketing Board operates a two-price system which has improved prices and encouraged increased marketings. The added cost of disposing of excess wheat in export markets reduces the effectiveness of the programme.	Bring winter wheat with other cash grains under the Ontario Grains Marketing Board. Operate a supply management system covering all cash grains. Discourage wheat production in excess of domestic milling demand by quotas or two-price systems. Quantities produced in excess of quota should be sold as feed wheat, or at export price, whichever is more profitable.

	situation	recommended action
Grain marketing – corn	Production of corn as a cash crop has increased rapidly but still does not meet demand. Half the crop is fed on farms where it is grown. Prices are influenced heavily by U.S. production and marketing conditions. The voluntary corn programme in the U.S. provides substantial subsidies to participating U.S. corn growers. Subsidized U.S. corn has been allowed to move into Canada at below the support price level in the U.S.	Bring corn with other cash grains under the Ontario Grains Marketing Board. Implement an expansion programme for Ontario corn production and marketing, under the O.G.M.B. This programme would allow Ontario corn marketings to expand by at least 30 million bushels by displacing U.S. imports. Such a programme could be conducted without depressing Ontario corn prices below the U.S. support price. Prevent U.S. corn imports at prices below their support level plus costs (exchange, tariff, transportation). Determine the effective level of subsidization of U.S. corn and take steps to ensure that Ontario farmers are not forced to compete with the U.S. Treasury. Co-ordinate production decisions with supply contracts between the O.G.M.B. and buyers. Recognize that corn prices must not be allowed to rise above competitive levels, or substitution of western and U.S. grains will occur in livestock programmes.
	Inadequate drying, receiving and storage facilities result in chaotic marketing conditions at harvest and in unnecessarily low prices.	Improve capacity and efficiency of grain elevator facilities. Empower the O.G.M.B. to: Obtain sufficient producer – controlled public storage capacity to reduce the need for forced sale at harvest. Set minimum prices to elevators. Negotiate maximum charges with grain handlers. Negotiate long-term sales agreements with large-scale, continuous buyers, as sole selling agent for the producer. Examine multiple price arrangements, reflecting the various uses for corn in specialty products such as cereal, starch, whisky, etc.
	Ontario corn is at a disadvantage in competition with U.S. corn moving to St. Lawrence Seaway ports, due to unavailability of water transportation facilities. Availability and rates for rail and truck transportation of Ontario grains could be improved.	Reduce transportation problems affecting all grains by negotiating with private and public agencies for improvements in facilities and service and for rate reductions.
Grain marketing – soya beans	About 7,000 farmers in Ontario grow soya beans. Production is expanding but supplies are only one-third of Canadian requirements. Prices are influenced heavily by U.S. prices and market conditions. Support programmes in the U.S. provide both direct and indirect income support to U.S. producers while allowing exports at prices below support levels. Ontario output could be expanded without depressing price levels.	Bring soya beans with other grains under the O.G.M.B. Include soya beans in the cash grain supply management system. Negotiate forward supply contracts with major users.

	situation	recommended action
Grain marketing – soya beans		Secure protection against unfair competition from U.S. suppliers by means of minimum import prices on soya beans based on support price levels in the U.S.
	The price of Ontario soya beans is influenced by prices of products such as marine oils which compete with soya bean products. The price at elevators is influenced by the strong bargaining position of the three soya bean processors. They are exclusive buyers in the Ontario market, with the exception of limited export sales to the U.K. (This market will be reduced under recent G.A.T.T. agreements.)	Prevent dumping of soya bean products and competing oils in Canada. Create storage facilities for soya beans and oils, under the control of the O.G.M.B., to ensure effective bargaining with domestic processors. Institute a system of forward sales contracts. Investigate the possibility of purchasing existing oilseed processing capacity to ensure a reasonable level of competition in the industry.
Dairy products marketing	For some dairy producers, income is satisfactory because of efficient management, high production per cow and good fluid milk prices. For others, income is too low because of inefficient management, small herds, low production per cow or low industrial or surplus milk prices.	There are more people than are required for the production of Ontario's milk. Many of them will not be able to achieve satisfactory incomes in the milk business in Ontario.
	Demand for milk will not increase significantly. Large price increases for milk could seriously reduce consumption of high priced fluid milk in favour of milk powder and substitute products. There is a great deal of conflict and disagreement in the milk industry concerning the continued segregation of fluid and manufacturing milk producers. The main problem is to establish a workable quota policy which will allow entry to the pool of all Grade ‘A’ shippers. Milk pricing has been rigid and inequitable. Pricing policies have encouraged undesirable production, undesirable shifts (cream to industrial milk) and undesirable milk-use practices.	During the period of adjustment (to 1980) the federal dairy policy should be guaranteed to ensure that the financial resources are continuously available to accomplish the adjustment programme. A five-year programme should be worked out in consultation with provincial and industry representatives. The O.M.M.B. should undertake a major programme of adjustment aimed at moving many low-income milk producers out of the industry. The O.M.M.B. should place a limit of 3,000 pounds on the size of fluid milk quotas. For holders of quotas over 3,000 pounds, no further expansion should be permitted. This would allow fluid shippers to move to viable units employing three men, and would provide quotas for new Grade ‘A’ entrants. All quota rights should revert to the Board at the end of three to five years, at no value. Quotas should be re-allocated by the Board on a contract basis for five-year terms thereafter. The O.M.M.B. must improve its line of communication with all producers, particularly Grade ‘A’ industrial shippers. A strong General Farm Organization is needed to ensure that some producers are not favoured at the expense of others.
	Rigid milk pricing does not reflect its true value nor its cost of production.	Ensure that the price of milk to producers reflects its value in the market. This will require careful consideration of milk constituents, quality, seasonality and location.

	situation	recommended action
Dairy products marketing		Ensure that the price of milk to processors is based on milk content, product use and transportation costs. A higher average price could be ensured for all producers.
	Milk assembly and transportation arrangements are inefficient. Routes overlap, trucks operate below capacity and needless cross-hauling occurs. Milk assembly and diversion costs are needlessly high. The transition from single-product to multi-products plants has proceeded slowly. This has resulted in poor use of milk and in low prices to producers.	Extend the O.M.M.B. milk assembly and pooling programme to include all Grade 'A' milk. It should be operated to achieve several desirable objectives: To reduce milk assembly and diversion costs, To encourage adjustment in milk production, To encourage adjustment in milk processing.
	Milk retailing is changing rapidly, particularly for fluid milk. Consumption has declined. Substitutes threaten to reduce markets and depress prices.	Urge the O.M.M.B. to evaluate the efficiency and effectiveness of the entire milk marketing system, in the interests of its producer members. Evaluate the effects of both blended and substitute products very carefully before requesting a review of present legislation dealing with them.
Meat marketing – general considerations	Producers of meat products are individually helpless to protect their interests in the market. Present meat marketing organizations are operated in isolation from one another. They therefore fail to realize their full potential. Lack of co-ordination is wasteful because there is an overlapping membership in the meat marketing groups. Stronger bargaining positions could be taken if a unified group could be formed.	Organize an *Ontario Meat Marketing Board* within the F.S.A. to include the marketing of all pork, beef, poultry, lamb and other meats. Study the possibility of developing common programmes such as: common data processing facilities, common fieldmen, common publications. Many of these services are needed by producers but cannot be provided by any of the commodity groups on its own.
Hog marketing	The industry is undergoing rapid change in breeding, management and grading. These changes will have great impact on the organization and control of hog production. It will affect the number of producers, the size of operation, and buying and selling practices required in the industry. Centralized marketing by the O.H.P.M.B. has reduced the cost of assembling and selling hogs. It has provided more competitive selling contitions and higher prices. Prices of hogs continue to vary widely on a single day and from day to day.	Encourage the O.H.P.M.B. to provide leadership in developing new service programmes. Study the feasibility of a supply management programme for hogs, to ensure the quantity and quality of hogs that can be marketed at reasonable prices. Investigate a system of price pooling on a weekly basis, by region. Forward contracting for hogs with processors may be a technique for use at the provincial level. Any type of supply management would benefit from co-operation with hog producers in other provinces.
	Hog production is not organized as efficiently as it might be on most Ontario farms.	Co-operate with relevant agencies such as CANFARM and government extension services to create a field programme aimed at improving management techniques and production practices on Ontario hog farms.
	Some processing facilities for hogs are old, poorly located and of small scale. There is excess capacity seasonally and from year to year.	Encourage the construction of new, well designed, efficient processing plants. Older plants are well depreciated and should be demolished.

	situation	recommended action
Hog marketing	Food chains hold down prices, especially for fresh cuts. They are able to do this because of unpredictable supplies and unstable prices of pork. Meat operations in food chains are inefficient. Pork cuts carry excessively high margins in relation to the cost of retailing.	Co-operate with packers to relieve downward pressure on prices by food chains. Act as brokers for packers or develop continuous forward contracts for fresh pork. Centralize prepackaging and distribution of meat for chain store trade.
Beef marketing	About 28,000 farmers have cattle on their farms in Ontario mainly for the production of beef. Dairy farmers provide nearly half the total supply of cattle meat. Beef cow numbers have increased steadily, but Ontario cow-calf herds provide less than half of Ontario's feeder requirements. Demand for beef is strong and growing rapidly. Prices should continue to improve. At present beef prices, cow-calf operations must be very large (170 cows), highly efficient, and located on very cheap land to provide a reasonable income. Beef farmers in Ontario could become much more efficient in feed harvesting, storage, and handling. Better breeding is needed to provide fast-growing calves which can be marketed under two years of age.	Adjustment from the production of industrial milk into beef should be encouraged where land costs are low. Land costs for profitable cow-calf operations could be reduced by expanding farm consolidation and community pastures programmes. Provide intensive management assistance programme to encourage adoption of better breeding and feeding practices.
	Beef producers are poorly organized to market their product. Cattle are sold in a variety of ways. Direct sale to packers is increasing, especially among large feeders. This allows top cattle to by-pass the open market, and depresses the price for all cattle sold. Most cattle are sold on a live-weight basis, but larger operators have been moving to dressed-weight pricing. Where carcass-grade selling has been used, the lack of uniformity in packer grading has caused problems.	Organize a beef marketing plan as part of an agency type Meat Marketing Board to market all animals which are sold for slaughter. Institute a carcass grading system and a carcass-weight basis for sale of all animals going for beef. The Beef Marketing Board should institute a cattle and veal calf auction system using designated auction barns as an extension of the Ontario Stock Yards. Sales could be on an optional basis; dressed or live. Establish prices for each grade weekly by negotiation or at frequent intervals by the use of teletype.
	A single marketing plan has not been approved because of the wide variety in cattle producers. Beef, dairy, feeder and cow-calf operators are all included in the beef industry.	A stable supply will provide a strengthened bargaining position for the producer.
	Food chains are major distributors of beef. Beef is important in their merchandising programmes and is often featured. Margins on beef are low, but retailing is inefficient. Chains exercise a strong bargaining position with packers to force price to low levels.	Forward contracts should be considered for beef marketing, as a means of stabilizing supply. Such contracts could be written between the Meat Marketing Board and the retailer. Reduce beef retailing costs by developing centralized prepackaging of beef by packers.

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	situation	recommended action
Poultry meat marketing	About 800 farmers produce chicken broilers in Ontario. The industry has come through a rapid transition and now has achieved reasonable price and supply stability. The quota system used to control supply has not been perfected and causes serious problems. Unrealistic pricing and price inflexibility has resulted in friction and costly adjustments to imports which moved in under the Ontario price structure. Quota transfer policy has failed to facilitate adjustment to units which are large enough to earn adequate returns to resources.	An agency type Poultry Marketing Board should be organized within the F.S.A. for all producers of poultry meat products. The interests of hatcheries and processors should be taken into account in determining the extent, frequency and timing of changes in supply and price. Encourage full use of present capacity by an amended quota transfer policy. Make quotas available to those people capable and interested in expanding to a viable operation. Move toward allocation of all quotas by the Board, with no sale of quotas permitted. Set maximum quotas to prevent excessive concentration of production capacity and to prevent serious pollution problems.
	There are about 700 turkey producers in Ontario. They are unorganized. Turkey broiler production has expanded rapidly under the encouragement of feed companies. Turkey broiler producers are in a very weak bargaining position.	Include turkey producers in an agency type Poultry Marketing Board.
	Poultry processing is concentrated in very few hands. There is excess processing capacity in the industry. New technology has not been uniformly adopted by processors. Efforts have been made to develop further processing and pre-packaging but the industry faces serious competition from U.S. producers.	The Poultry Marketing Board should continuously assess the adequacy of processing and marketing facilities, and press for necessary changes. Assess continuously the adaptation of poultry retailing techniques, and press for changes.
	Poultry processors face great downward pressure on price from food retail chains. Retail chains feature broilers extensively at or below cost. Very high margins are charged at the retail level during normal periods.	The Poultry Marketing Board should co-operate with processors in developing realistic terms of sale with food chains. The Board may have to act as broker to ensure realistic prices and margins on poultry meats.
Egg marketing	Small flocks continue, despite strong pressure for more specialized production. A flock of 5,000 birds is a minimum for reasonably efficient grading and marketing. The number of producers supplying the Ontario market will continue to decline.	Organize an agency type *Egg Marketing Board* as part of the National Egg Marketing System. Focus attention on producers supplying commercial outlets. Small producers might not need to be included. Encourage adjustment to reasonable-sized units of from 5,000 to 15,000 birds. Prevent excessively large units from being set up, in view of large-scale adjustments required in the industry and of major pollution problems faced by larger units.

	situation	recommended action
Egg marketing	Wide swings in supply and price create high risks and long periods of unprofitability. Price swings lead to serious inefficiencies in marketing. Transportation of eggs is inefficient, with much duplication and cross-hauling in assembly. Efficient marketing requires continuous arrangements between producers and grader-packers.	Manage supply in co-operation with licensed grader-packers. This will stabilize supplies and allow negotiation of stable prices. Encourage adjustments in the marketing system to fewer, larger, more efficient grader-packing stations in desirable locations.
	Many of the 236 grading stations are of inadequate size, have poor egg supply arrangements and poor markets. A few, large operations account for a high proportion of the carton egg trade. Their share will increase. Several food retail chains are integrated into egg grading and packing to supply a major part of their requirements in the larger markets.	Conduct research into the bargaining position and buying practices of retail food chains in egg pricing and distribution. Stabilize producer prices in an appropriate manner. The Egg Marketing Board should study the necessity for controlling egg grading-packing operations to control supplies and prices, egg processing operations may be integrated with the grading function.
Fruit and vegetable marketing	About 10,000 farmers are significant producers of fruits and or vegetables. They are concentrated in several specialized regions. Marketing is poorly organized as shown by the multitude of marketing boards. There is poor co-ordination among products, among regions of supply and between sellers and buyers. Fresh and processing markets are segregated.	Organize a single agency type *Fruit and Vegetable Marketing Board* to co-ordinate the activities of all the present boards. This process could proceed by merging all processing boards into one structure and all fresh boards into another, with final merger taking place after a period of adjustment.
	Fresh fruit and vegetable marketing is chaotic, with needless price fluctuations and ineffective distribution. There is needless production variability and buyers cannot be sure that they will receive the volume and quality they require.	Manage supplies of both fresh and processed fruits and vegetables. This implies close control both of quantity and quality. Negotiate supply contracts with large buyers at realistic prices. Achieve orderly marketing, a more uniform pack, and guarantee continuity of supply to buyers. Transfer inspection activities to the Ontario Food Council to ensure that all product is accounted for in the province when quantities and prices are set. Co-ordination between Federal and Provincial grading and inspection programmes should be ensured by transferring all grading responsibilities to provincial administration. Funds should be made available from the Federal Government to cover the costs of this service.
	There is not sufficient communication between producers and their market. Producers work within a vacuum so far as accurate information is concerned. They require more knowledge of the needs of the consumer.	Develop within the Fruit and Vegetable Marketing Board, a research and information programme which will provide producers, processors and consumers with more adequate information about the activities of the industry. This will facilitate necessary adjustments.
	Vast quantities of fruits and vegetables are imported at all times of the year. Ontario prices can be depressed unnecessarily by unfair competition from foreign suppliers.	The G.F.O. may be helpful in establishing appropriate trade policies.

	situation	**recommended action**
Fruit and vegetable marketing	Food retail chains exert strong downward pressure on prices of both processed and fresh products. Some food chains are integrated into fresh vegetable packing-wholesaling in the major production areas.	Require the Fruit and Vegetable Marketing Board to meet the reasonable market requirements of the food chains for uniform, continuous supplies. Regional and specialized boards are unable to do this. Prevent further integration of food chains into production of vegetables.
Tobacco marketing	About 4,000 farmers produce flue-cured tobacco. Acreage rights are allotted to producers and are transferable only with the sale of the land. Benefits from the programme are capitalized into land values, thus driving land (with rights) prices far above raw land prices.	Most tobacco farmers have satisfactory incomes, by any standard, provided that they purchased their land and received their rights to grow early in the programme. Newcomers have paid very high prices for land with rights. If faced with lower demand and prices, these producers could face severe adjustments and income difficulties.
	Demand for tobacco is uncertain. The effects of the product on health, the Rhodesian supply, and the U.S. price support policies may have unpredictable effects on demand and price.	Rights-transfer policies have benefited existing tobacco farmers at the expense of newcomers including heirs of present operators, by forcing land values to rise. Study carefully the effect of revising present rights transfer policy to reduce the cost of entry to newcomers.

The price of progress (reference chapter 12 page 123)

	situation	recommended action
General considerations	Low returns to resources and many farm operators with low incomes characterize the agricultural industry in Ontario. Changing technology demands structural change in the economy, but people are trapped in farming and unable to adjust rapidly.	Improve the mobility of people presently committed to farming by providing better job opportunities outside agriculture, by reducing the financial costs of mobility, and by overcoming farm people's fears of change.
	Trapped resources and increasing efficiency result in over production and depressed prices.	Institute comprehensive supply management for the industry. Control the impact of new technology on prices and incomes through planned, orderly expansion of production.
	Large numbers of farm families are trapped in situations of self-perpetuating poverty for which the economic system alone has no remedy.	Provide for a fairer distribution of incomes through government transfer payments.
	Change in the rural community and the agricultural industry is beyond the control of individual farmers.	A strong General Farm Organization is needed to press for government action in planning the agricultural industry and planning regional development, and to evaluate the performance of government programmes in these matters.
	Solutions to most major problems of the rural community are impossible without major changes in the pattern of urban-industrial development.	Encourage co-operation between rural and urban interests by promoting a general understanding of common problems and their inter-relationships.
	Increasing efficiency and other changes which benefit the rest of society often operate to the disadvantage of farmers.	Ensure that society recognizes and discharges its responsibility to those who are hurt by rapid technological change.

adjustment by rural people

The labour requirement of the agricultural industry is constantly declining. Which farmers should remain in the industry, and which should shift to off-farm employment?	Provide realistic off-farm opportunities, so this shift is the result of voluntary decisions rather than compulsion. People should be attracted, not squeezed, out of farming.
The most effective adjustment of the farm labour force takes place through an excess of retirements over new entries into farming as an occupation. How can programmes be designed to take advantage of situations of greatest mobility?	Concentrate on the education and training of rural youth, and create special conditions for entry into farming as an occupation.

ADJUSTMENT TO CHANGE

(reference part IV)

	situation	recommended action
Rural education	The rural education system is currently inferior to the urban system. How can it be made equal to the urban system?	Provide incentive payments to qualified teachers in rural areas. Pursue school consolidation and improvement programmes. Develop better vocational guidance and training programmes in rural secondary and post-secondary institutions.
	Too many rural students leave school at an early age without being well prepared for non-agricultural employment. How can this be discouraged?	Increase the relevance of education to rural students. Eliminate the strong urban bias of textbooks and curricula. Develop curricula which are attuned to the initial values and knowledge of rural children, and which are designed to broaden this perspective. Provide more objective information about the advantages and disadvantages of rural and urban life. Incorporate a philosophy of continuing education and adjustment in the overall educational process.
	What can be done in the realm of informal education to encourage farm youth to consider all available opportunities and to avoid being trapped in agriculture?	Alter drastically the programmes of organizations like 4H to emphasize the economic prospects of agriculture as a career, the importance of education, the need for adjustment, and the availability of alternate career paths. Develop more broadly oriented Rural Youth Councils at the local level.
Entry into farming	More young people wish to become farmers than the industry can possibly support at acceptable levels of income. Aside from general education programmes, how can young people be steered away from farming as an occupation?	Establish entry requirements to limit the number of quotas granted to new entrants. Devise an examination procedure to estimate the management potential of prospective farmers. Eventually require a two-year diploma in vocational agriculture as a prerequisite to entry.
Programmes for adults	There are significant numbers of established farmers and other rural people who could change occupations under the proper circumstances. What can be done to assist these people to adjust to new circumstances?	Develop policies which increase the capacity of these people to adjust, but also bring better opportunities within their reach.
	How can the gap between the education system and the adult rural community be bridged?	Make the Colleges of Applied Arts and Technology and their satellites the centres for adult education, community development programmes, and extension services including recreational activities. Assign this role to the local high school where there is no C.A.A.T. Make full use of educational television.

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	situation	recommended action
Programmes for adults	How can the availability of technical-vocational training for farmers be increased?	Pay farmers to attend courses. Schedule courses to fit in with high school and college timetables, but especially to correspond with slack periods in farming activity.
	How can bad adjustment decisions be avoided?	Develop a communications programme to supply the farm press and rural media with better information to inform rural people more fully about alternate prospects. Insist that Manpower offices and counsellors be better acquainted with the needs of the local population and the trends in labour demand. Provide the necessary information for this purpose. Emphasize closer involvement with the local population through on-farm counselling.
	High costs of urban living, especially housing, make it too expensive for rural people to move. What can be done to lower this barrier to adjustment?	Create non-farm jobs closer to the people who need them. Provide low cost housing in towns and growth centres where jobs are available. Preserve flexibility by constructing homes which can be moved from one location to another.
	How can alternate employment be offered to rural people?	Implement a regional development plan, with known growth centres supported with all necessary resources instead of the current unplanned localized activities. Strive to attain high levels of employment in each region.
	Those people who most need to improve their situation face the greatest difficulties in doing so. How can they be assisted most effectively?	Concentrate the regional development effort in parts of northern and eastern Ontario where the needs for and barriers to adjustment are greatest.
	Significant numbers of people who have left agriculture return to small farms years later. How can this reverse movement be discouraged?	Make the alternate way of living more attractive to rural people. The alternatives must be within their reach in terms of location, education and training, interest and ability. Use quota and registration policy to prevent the transfer and perpetuation of poverty farms. Consolidate land holdings through the proposed Ontario Land Corporation or extended A.R.D.A. Make purchases for non-agricultural use or for resale or lease to licensed farmers.
	How can the co-ordination and coverage of the various education, guidance, vocational training and mobility programmes be improved?	Organize these programmes within the framework of regional development plans. Create a Rural Human Resources Council to evaluate the performance of the whole mix of programmes and to recommend changes to the Cabinet Committee on Rural Affairs.

adjustment by society

	situation	recommended action
	Farmers and rural people bear an unfair share of the costs of economic progress. How should the rest of society through its governments accept responsibility for some of this burden?	Control the impact of change on the agriculture industry. Pursue a vigorous regional development programme. Institute more effective income maintenance programmes.

	situation	recommended action
The agricultural industry	How can the additional adjustment pressures generated by new substitute products be controlled?	Pass laws requiring substitutes to be clearly distinguished from the competing farm product. Subject new substitutes to vigorous testing to ensure that they meet health and nutrition standards. Control the introduction of substitutes if they threaten to disrupt farm production and create serious short run hardships for farmers.
	How can the effects on farm income of monopolistic practices in the farm input industries be controlled?	Regulate the behaviour of machinery and fertilizer companies through provincial legislation. Create crown corporations to provide a countervailing force where necessary.
	How can the disruptive effects of unfair import competition on farm income in Ontario be controlled?	Protect Ontario farmers from dumping and distress selling with stabilization payments and realistic anti-dumping and trade policies.
	How can the maximum number of efficient, independent farms be preserved in Ontario?	Institute comprehensive supply management for the Ontario agricultural industry. Deny quota rights to feed and processing companies. Concentrate new and transferred quotas on well managed one, two, and three-man farms to bring them to adequate size.
Regional economic development	Rural Ontario is disintegrating economically and socially at the same time as metropolitan growth centres face mounting problems of congestion. What should the Government of Ontario do in response to these challenges?	Make a total commitment to the idea of regional economic development. Recognize that this will require extensive governmental reorganization and additional incentive and guidance of private business decisions.
	What steps should the government take to reappraise its regional development programme?	Establish a *Cabinet Committee on Rural Affairs* chaired by the Minister of Agriculture and Food. Create the framework for Regional Development Boards with the authority to engage in comprehensive regional planning, and create the framework for corresponding regional political authority. Create a Rural Human Resources Council to advise the Cabinet Committee on Rural Affairs on matters related to education, vocational training and guidance, and manpower mobility programmes.
	What measures should the government consider in pursuing regional development?	Recognize that a realistic programme requires the designation of a limited number of regional growth centres. Recognize that incentives to business enterprise may be insufficient to foster the growth of regional centres, and that the growth of existing metropolitan areas may have to be slowed down.
Income maintenance	Many of the 40,000 farm operators principally dependent on agriculture have incomes below $3,000 per year and no off-farm work. What can be done immediately to assist them?	Avoid assistance programmes which are tied to the price of farm products, since subsidized prices do not meet the needs of farmers with little production. Institute a negative income tax which will concentrate public funds exclusively on low income families.

	situation	recommended action
Income maintenance	What form of negative income tax is most appropriate to Ontario at the present time?	Adopt a negative income tax which is compatible with the existing income tax structure. Make government payments equal to 50% of the difference between the tax exemptions and the pre-tax income of low income families.
	What will be the effect of the negative income tax on the fiscal position of the provincial government?	No major changes in taxation are required. Finance the negative income tax by acquiring federal funds currently used under the Family Allowance Plan, some federal funds used for Old Age Security Pensions, and some funds presently used in specific welfare programmes.
	What if the negative income tax temporarily retards the migration of farmers and their families off small farms?	Recognize that adjustment through part-time off-farm work, living off capital invested in farms, supplementary earnings of wives, sons and daughters, and government transfer payments represent a normal and desirable form of adaptation to change. Accept the fact that it is better to assist many low income farmers to remain on the land than to force them to move to an unsatisfactory urban environment.

APPENDIX

ACKNOWLEDGMENTS

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In California, Dr. G. Alvin Carpenter of the University of California at Berkeley arranged many contacts for the Committee which included a meeting with members of the staff of the Agricultural Economics Department of the University of California at Berkeley and later with Extension Specialists of the University of California at Davis.

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A number of organizations and individuals at our invitation took the time to prepare submissions and briefs to the Committee and these are listed elsewhere. We are thankful for their interest and support.

Dr. Murray A. MacGregor of the Agricultural Economics Department of the University of Guelph acted as Director of Research and as such was a valuable and constant liaison with the staff of the research consultants.

The staff members of the firm of Hedlin, Menzies and Associates Limited are listed elsewhere. Their devotion to their task and their undoubted professional skills were much in evidence throughout our study. To them we express our thanks and appreciation.

HEDLIN, MENZIES AND ASSOCIATES LIMITED, RESEARCH STAFF

Rodger Schwass, Project Management and Liaison
Bruno Lagacé, Project Director

Professional Economists

Scott Brooks
James Clarke
John Deverell
Dr. Surendra Kulshreshtha
Willem Janssen
Douglas McArthur
Dr. Merril Menzies
Brian Owen
Arvo Ray
Harry Weijs

Professional Support Staff

G.A. Constable
Barry Hall
Diane Kennedy
Natu Patel
Robin Wiens

Special Studies Staff

Bruce Gray
Peter Love
John Neil

Commissioned and other Special Studies

Ross Cavers, Canadian Poultry Review, Toronto
Antonio Contini, Ontario Department of Agriculture and Food, Toronto
Gary Hutchison, University of Guelph
Ian Potter, M.D.T. Associates, Winnipeg
Hubert Préfontaine, M.D.T. Associates, Winnipeg
Allan Sorflaten, Ontario Department of Agriculture and Food, Toronto
Vic Stechishin, Canada Transportation Services, Winnipeg

Other Professional Support Personnel

Dr. Jack Britney, University of Guelph
Wm. McBride, University of Guelph
Dr. Brian Perkins, University of Guelph
Don Wood, Don S. Wood Ltd., Toronto

BACKGROUND RESEARCH TO THE REPORT

Research reports

1. An Assessment of the Farm Supply Industries and Their Impact on Farming
2. Capital and Credit in Ontario Agriculture
3. Changing Land Use in Ontario: Implications for Agriculture
4. Farm Management in Ontario
5. The Farm Labour Force and Adjustment Out of Agriculture
6. The Income-Efficient Farm in Ontario Agriculture
7. Organization and Performance of the Agricultural Industry in Ontario
8. Demand-Supply Inter-Relationships for Agricultural Products in Ontario
9. Marketing of Cereal Crops
10. Marketing of Dairy Products
11. Marketing of Beef and Pork
12. Marketing of Poultry and Eggs
13. Marketing of Fresh and Processed Fruits and Vegetables in Ontario
14. Processing, Wholesaling and Retailing
15. Values, Goals and Means

Supplemental papers

1. Supply Management as a Means of Improving the Farm Income Situation
2. The Farm Firm and the Industry
3. Economics of Size in Farming
4. Land Values, Tenure and Capital on the Farm
5. The Taxation of Income
6. Land Use Planning and Regulation

CHRONOLOGY OF TRAVEL

Areas visited by the Committee

1968

April

17	Plantagenet and Ottawa
18	Renfrew, Brockville, Smiths Falls
25/26	Ottawa

May

27	Kingston, Peterborough
28	Lindsay, Newcastle
29	Newmarket, Bradford, Alliston

June

13	Port Arthur
14	Fort William
17	Kenora, Dryden
18	Fort Frances, Emo

July

2	Vineland and Niagara Area
3	Brantford and Kitchener
4	Centralia
29	Kapuskasing, Cochrane, Timmins
30	New Liskeard
31	Sudbury

August

1	Gore Bay, Sault Ste. Marie, North Bay
13	Calgary, Alberta
14	Winnipeg, Manitoba
27	London
28	Chatham
29	Leamington

September

19	Urbana, Illinois
20	Bloomington and Springfield, Illinois
23	Berkeley, California
24	Berkeley and Sacramento, California
25	Sacramento and San Francisco, California
26	San Francisco, California

December

17	Culiacan, Mexico
18	Nogales, Arizona
19	Mexico City, Mexico

BRIEFS AND SUBMISSIONS

received by Committee

Wilfred H. Barnes, Petersburg
Beekeeping Industry of Ontario
Beef Producers in North-Eastern Ontario
Canadian Co-operative Wool Growers
Canadian Wine Institute
Conservation Council of Ontario
Meat Packers' Council of Canada
Ontario Asparagus Growers' Marketing Board
Ontario Bean Producers' Marketing Board
Ontario Broiler Chicken Producers' Marketing Board
Ontario Cream Producers' Marketing Board
Ontario Creamerymen's Association
Ontario Egg and Fowl Producers' Marketing Board
Ontario Farmers' Union
Ontario Federation of Agriculture
Ontario Fruit & Vegetable Growers' Association
Ontario Grape Growers' Marketing Board
Ontario Hog Producers' Association
Ontario Hog Producers' Marketing Board
Ontario Institute of Agrologists
Ontario Milk Marketing Board
Ontario Onion Producers' Marketing Board
Ontario Poultry Council
Ontario Retail Farm Equipment Dealers' Association
Ontario Seed Corn Growers' Marketing Board
Ontario Soyabean Growers' Marketing Board
Ontario SPF Swine Association
Ontario Tender Fruit Growers' Marketing Board
Ontario Turkey Producers' Marketing Board
Ontario Vegetable Growers' Marketing Board
Ontario Wheat Producers' Marketing Board
Fred Richardson, Toronto
John Rupke, Kettleby
J. Andrew Stewart, Ailsa Craig
Eric Webster, Lansdowne

Supplementary Briefs were received from:

Ontario Broiler Chicken Producers' Marketing Board
Ontario Federation of Agriculture
Ontario Milk Marketing Board
Ontario Soyabean Growers' Marketing Board
Ontario Vegetable Growers' Marketing Board
Ontario Wheat Producers' Marketing Board

In addition other communications were received from interested parties during the period of our work. These were individually acknowledged at the time.

accrual	a method of measuring income for income tax purposes whereby changes in inventories are added to or subtracted from receipts.
adjustment	change which must be made by farmers when conditions that determine their well-being change. Change in production practices on the farm, change in occupation, change in jobs, change in location are some examples.
agri-business	all businesses dealing with farmers as buyers or sellers. For example farm supply companies, processors, retailers, and distributors.
A.R.D.A.	Agricultural and Rural Development Administration under which the Federal Government shares the cost of provincial programmes dealing with various aspects of adjustment in agricultural and rural society.
barriers to mobility	those factors which discourage an individual from moving freely from one location to another, from one job to another or from one occupation to another.
C.A.A.T.	College of Applied Arts and Technology.
CANFARM	Canadian Farm Management Data System.
capital	goods used in the operation of a farm for production of farm products. These include for example land, machinery, equipment, buildings, feed and fertilizer.
C.A.T.	College of Agricultural Technology.
credit	money borrowed to use in the operations of the farm.
economic unit	a farm which is capable of returning to its operator a minimum income as a return to labour and capital.
efficiency	the amount of inputs required to produce one unit of product.
evaluate	to assess critically a situation or an action.
farm inputs	any materials or services which go into the production of a farm commodity. For example seed, feed, fertilizer, equipment and machinery are inputs.

farm value added	that portion of value of farm production which is contributed by the farm family's capital and labour.
F.R.E.D.	Fund for Rural Economic Development—a Federal Government programme dealing with the economic development of a rural region with specified boundaries.
G.A.T.T.	General Agreement on Tariffs and Trade.
income	the spending power which an individual or family accumulates over a period of time.
input mix	the combination of inputs used to produce particular farm products used on the farm. For example, one hour of labour and the use of a tractor for one hour to cultivate a field is an input mix of labour, capital and land.
lumpy input	an input which to be used to full capacity requires a large size of operation.
mobility	the ability of an individual to change home location, or change occupation, place of work, kind of work.
model farm	a farm with one or two full-time operators budgeted to represent technology, input costs and output price conditions in Ontario agriculture. The purpose of developing the model farm was to find out the amount of resources (labour, management, capital, including land) required to achieve a specified labour and capital return to the farm operator.
O.D.A.F.	Ontario Department of Agriculture and Food.
operating margin	the difference between cash farm receipts and total operating expenses and depreciation.
operator's share	that proportion of revenue which goes to the farmer as returns for his labour, management and owned capital.
philosophy	the importance and value that a person or a group of people place on things such as security, freedom, independence, material wealth, etc.
quota allotment	the original distribution of the right to participate in a supply management programme.

quota	the portion of an allotment which an individual farm operator is allowed to produce and on which he can expect to participate in the benefits of the supply management programme.
rationale	the reasons for doing something.
regional economic development	policies or programmes that try to make the best possible use of natural and human resources in an area.
returns to resources	the share of the value of production that is allocated to the land, labour and capital used in production.
revolving lease	an agreement made between a tenant and a landlord, whereby the minimum period for notice of termination of the lease is equal to the term of the lease. It is automatically renewed annually for a full term unless notice of termination is given.
salvage value	the price that a farm operator could get for an input if it were sold rather than used in farm production. This value is often much lower than in its present use value and is sometimes no value at all.
supply management	the practice of planning production to meet market requirements at pre-determined prices.
trapped resources	human and capital resources which cannot be moved into other uses, except at high cost and with great difficulty.
viable farm	a farm which produces for its operator acceptable minimum rates of return to capital, labour, and management.
viable farmer	a farm operator who is able to obtain at least the minimum income required to meet the needs of himself and his family. Portions of this income may come from off-farm employment or from non-farm investments.

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Ontario. Special Committee on Farm Income.

The challenge of abundance.